

REPORT TO
THE CONGRESS OF THE UNITED STATES

SURVEY OF THE AGENCY FOR INTERNATIONAL
DEVELOPMENT'S MANAGEMENT AND OPERATION
OF THE
COMMERCIAL IMPORT PROGRAM FOR VIET NAM

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF DEFENSE



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

AUGUST 1967

~~711444~~

094015



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-159451

AUG 24 1967

C To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has reviewed the administration of
the commercial import program for Viet Nam by the Agency for Inter-
national Development (AID). This report presents our findings. 97

Under the commercial import program, the United States finances the dollar costs of commodities procured abroad by Vietnamese importers. The principal purpose of the program is to combat inflation in Viet Nam by financing purchases of imports to be sold commercially in Viet Nam and thereby absorb excess currency. During calendar years 1965 and 1966, the money supply increased 77 percent and 37 percent, respectively, principally because of increased budgetary deficits by the Government of Viet Nam and large expenditures by United States elements. During these same periods, living costs rose 40 percent and 68 percent, respectively. In the first 5 months of 1967, living costs rose another 13 percent.

The program also helps to meet Viet Nam's foreign exchange needs and provides, through the sale of the imported commodities, budget assistance for the Government of Viet Nam.

The 1966 obligations of the program--\$397 million--represented about 15 percent of the worldwide obligations of the Agency for International Development

We found that the commercial import program in Viet Nam is particularly subject to abuse because of its nature and the situation in Viet Nam. Illicit practices uncovered by United States audits and inspections are contained in appendix VIII

We found also that AID, to reduce abuses, has taken a number of basic steps to tighten management control of the program. The Agency's success will depend both upon the extent to which its controls can be enforced and upon the cooperation of the Government of Viet Nam. Without

32
97
5
/

B-159451

such controls and cooperation, few substantive improvements can be expected. The steps initiated by the Agency are as follows.

- Commodity analysts have been assigned to prepare studies of Vietnamese requirements and capabilities,
- More effort has been given to screening Vietnamese import licenses,
- To minimize hoarding and speculation, competition between Vietnamese importers is being stimulated, and
- The procuring of certain bulk commodities, such as fertilizer, is being done by the United States to minimize collusion between importers and suppliers and to achieve economies through consolidated purchasing and shipping. We are recommending that AID consider expanding the number of commodities procurable by the United States.

AID does not specify the types and quantities of commodities being imported, although some commodities are declared ineligible for United States financing and AID commodity analyses are expected to influence the decisions of Vietnamese businessmen as to what they will import. Thus, the basic decision as to what will be imported under the program is determined by the Vietnamese importers and is based presumably on the interplay of market forces.

In countries other than Viet Nam AID's import programs are based on detailed reviews and justifications of just what amounts of what commodities will be financed. AID officials have indicated that their conventional program practices are not practical in Viet Nam because these practices are too slow, in view of the rapid changes in economic factors, and because they do not have sufficient program data for forecasting.

AID in consultation with the Government of Viet Nam also has declared a number of commodities ineligible for further financing on the grounds that their needs can be met with Vietnamese foreign exchange reserves. Further efforts are being made in this direction, particularly in financing relatively small transactions that are difficult for the United States to monitor effectively.


We noted that improvements had been made by the end of June 1967 regarding congestion in the commercial sector of the port of Saigon. Some improvements were also noted in the time taken to discharge commercial cargoes from vessels. As the result of excessive delays in discharging AID-financed cargoes, AID estimates that it will either incur or finance about \$15.5 million in demurrage and congestion charges for fiscal year 1967.

AID has installed an automated system to account for incoming cargoes. The system is in operation, but in our opinion much remains to be done to make it fully effective. Additional data is needed to identify and locate, more precisely, incoming cargoes.

We plan to further review the administration of the commercial import program through a number of in-depth examinations. These will include reviews of (1) controls over the programming, purchasing, receiving and utilization of individual program commodities, (2) the accountability over incoming cargoes at the Saigon port and elsewhere, (3) the control and use of the local currencies generated under the program, and (4) the status of refund claims originated by the United States in connection with program transactions.

This matter is being reported to the Congress because of the concern of the Congress and the executive branch both with effective management of the program and its operation in a manner consistent with program objectives and with the need of the Congress for information regarding what is or is not being done in terms of management controls over the program.

Copies of this report are being sent to the Director, Bureau of the Budget, the Secretary of State, the Secretary of Defense, and the Administrator, Agency for International Development.


Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
INTRODUCTION	1
DESCRIPTION AND OBJECTIVES OF THE COMMERCIAL IMPORT PROGRAM	5
Description of the program	5
Program objectives	10
REVIEW RESULTS	12
Program formulation and economic impact	12
Factors bearing on the estimated size of the program	16
Economic impact of the program	19
Program implementation	21
Basic licensing and procurement changes	22
Recommendation	32
Measures taken to improve program operations	33
Port activities	46
Port operations	47
Inventory accounting system	53
Management responsibility	54
Program surveillance	57
Need for an improved management reporting system	
regarding audit coverage of the CIP	58
Conclusion	63
Recommendation	64
	<u>Appendix</u>
PENDIXES	
Principal management officials responsible	
for the activities discussed in this report	I 67
USAID Viet Nam, as of November 1, 1966	II 69
Economic assistance to Viet Nam fiscal years	
1954 through 1966	III 70
Letter dated April 26, 1967, from the Assistant Administrator for Administration, Agency for International Development	IV 71
Letter dated April 8, 1967, from the Deputy Assistant Secretary of Defense, Supply and Services	V 87
Letter dated April 27, 1967, from the Director for Transportation and Washington Policy, Office of the Assistant Secretary of Defense, Installations and Logistics	VI 89

	<u>Appendix</u>	<u>Page</u>
Letter dated March 27, 1967, from the Acting Administrator, General Services Administra- tion	VII	92
Excerpts from General Accounting Office Report to the Congress entitled Review of Audit and Inspection Programs Conducted by United States Agencies in Viet Nam during 1966 (B-159451, May 4, 1967)	VIII	94

REPORT ON SURVEY
OF
THE AGENCY FOR INTERNATIONAL
DEVELOPMENT'S MANAGEMENT AND OPERATION
OF THE
COMMERCIAL IMPORT PROGRAM FOR VIET NAM
DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF DEFENSE

INTRODUCTION

The General Accounting Office has made a survey of the manner in which the Agency for International Development (AID) manages the commercial import program (CIP) for Viet Nam. This examination was undertaken pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our work was performed at the Washington headquarters of AID (hereinafter referred to as AID/Washington) and at AID's Mission in Viet Nam (hereinafter referred to as USAID) in consideration of (1) the concern of both the Congress and the executive branch with effective management of this program and of ensuring that it is operating in a manner consistent with its objectives and (2) the need of the Congress for information regarding what is or is not being done in terms of management controls over this program, which during fiscal year 1966 absorbed 15 percent¹ of AID's total

¹A total of \$2,668 million was obligated by AID for all programs of economic assistance throughout the world during fiscal year 1966, of which \$397 million was for CIP in Viet Nam.

obligations and which increased more than 150 percent between fiscal years 1965 and 1966.

Our inquiries were principally focused upon the broader aspects of program management and included related policies and procedures of AID, the agency principally responsible for managing this program. Recognizing that adequate program management should be geared to yield effective results at key program control points, we performed limited tests designed to reveal qualitative and quantitative data regarding certain key aspects of program operations.

Our field work was directed primarily to the manner in which AID was managing the program, with particular reference to program formulation and controls exercised over its implementation, including program accountability, the port situation in Saigon, and surveillance activities. We did not, however, undertake to ascertain the extent of commodity losses resulting from diversions or other causes. In a special report to the President on January 9, 1967, AID estimated that the then-current rate of theft of CIP commodities from off-loading through port clearance in Saigon was between 2 and 5 percent. We analyzed this report¹ and concluded that we could not express an opinion on the accuracy of this estimate because there was not adequate supporting data regarding commodity accountability.

Much of the operational-type data accumulated during our survey and presented in this report may not be fully reliable in absolute terms, as a result of there not being an adequate data accumulation and retention system at USAID--a condition well recognized by USAID at the time of our survey and one which it was endeavoring

¹Report to the Chairman, Committee on Foreign Relations, United States Senate (B-160763, April 27, 1967)

to rectify. Therefore, many of these data are presented in the framework of historical information compiled on a consistent basis, in order to offset such error factors. Moreover, such comparisons of data also serve the purpose of assessing overall improvements or retrogressions in program operations. We also considered data that we acquired in the context of known problem areas and of the need for management improvement, as well as of actions taken or contemplated to improve management control practices.

Our work consisted of discussions with officials in various offices in AID/Washington and USAID, and of the assimilation, review, and analysis of appropriate policies, procedures, reports, and data. Our field work in Viet Nam was performed from October to December 1966, and our follow-up work in Washington between January and July 1967.

A list of the principal management officials responsible for the activities discussed in this report is shown in appendix I.

DESCRIPTION AND OBJECTIVES
OF THE
COMMERCIAL IMPORT PROGRAM

DESCRIPTION OF THE PROGRAM

From inception of economic assistance to Viet Nam in fiscal year 1954 through fiscal year 1966, a total of \$1,990.4 million was obligated for the commercial import program. This represented 64 percent of the \$3,100.6 million obligated for economic assistance to that country during this period. (See app III.) In recent years the composition and magnitude of the commercial import program have been as follows:

	<u>Import licenses issued</u>		
	<u>Fiscal year</u>		
	<u>1967</u>	<u>1966</u>	<u>1965</u>
	<u>————(millions)————</u>		
Iron and steel products	\$ 28.3	\$ 64.9	\$ 36.3
Machinery and equipment	24.5	63.4	22.4
Fertilizers	21.0	5.8	6.9
Chemicals	20.1	34.0	10.1
Motor vehicles and accessories	17.4	21.4	4.9
Fuel and petroleum products	16.7	28.4	18.2
Newsprint and pulp and paper	13.3	12.9	3.0
Pharmaceutical and medicinal	9.7	21.6	13.2
Nonmetallic minerals, including cement	8.9	16.7	11.2
Foodstuffs	4.5	40.7	6
Nonferrous metals	3.5	9.8	4.7
Other	<u>14.9</u>	<u>24.6</u>	<u>12.8</u>
Total	<u>\$182.8^a</u>	<u>\$344.2</u>	<u>\$144.3</u>

^aIncludes \$28.0 million in obligations for four commodities procured through the United States General Services Administration (see p. 27).

The concept of a commercial import program is not new in the total spectrum of United States programs of economic assistance, having first been instituted under the Marshall Plan in 1948. Through the ensuing years it has been employed, to a greater or lesser extent, in practically all countries receiving United States economic assistance.

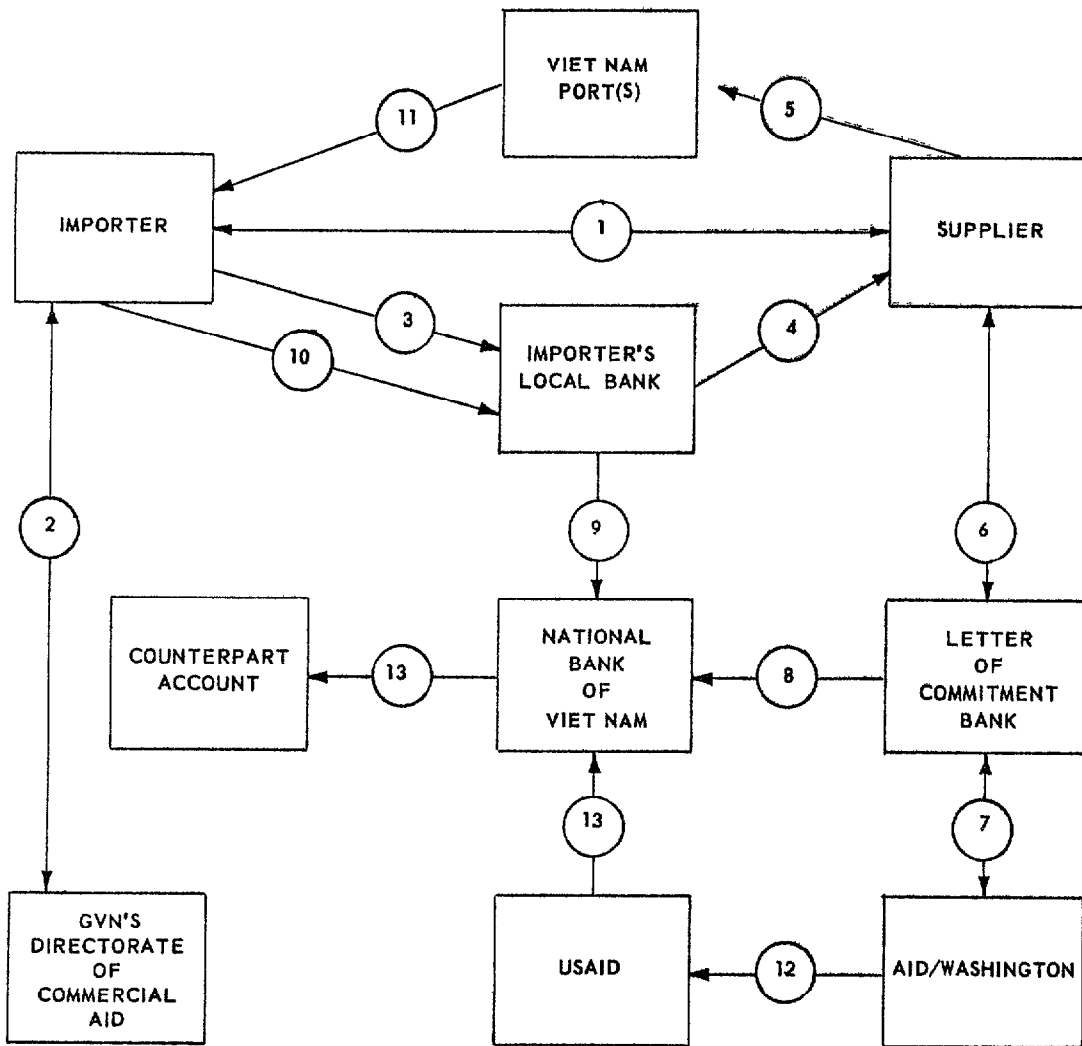
The program essentially entails United States financing of commodity imports into the recipient country's economy. Thus, the role of the United States in any given transaction is generally that of an international banker--it pays to the supplier the cost of the commodities bought by the importer, but the transaction itself is usually carried on through international trade channels. In recent years, most commercial import programs call for ultimate repayment to the United States in dollars. In Viet Nam, however, the program continues to operate on a grant basis rather than on a loan basis.

The importer of CIP commodities is an individual or a business entity situated in the recipient country or is an agency of the country itself. The supplier is similarly an individual, a business entity, or a governmental agency in the so-called "source country." The importer pays for the goods in local currency which is ultimately deposited into a bank account in the recipient country (known as the counterpart account")

"Counterpart funds" are owned by the recipient government but can be used only for purposes mutually agreed upon between that government and the United States. A portion of these funds is generally available for United States use. For example, 10.5 percent of the piasters (currency of Viet Nam) generated by the commercial

import program in Viet Nam during fiscal year 1966 was available for USAID's local support costs

The following diagram of the commercial import program cycle in Viet Nam shows generally how the program operates in that country



- 1 The importer issues an invitation for bid (IFB) for the goods to be imported. When the purchase is expected to exceed \$10,000, the IFB is published in the Small Business Circular of AID/Washington's Office of Small Business. If the purchase is under \$10,000, the importer may communicate directly with the supplier. In response, the supplier forwards its bid or proposal to the importer.
- 2 The importer selects a supplier and prepares a series of required documents and forms, including an application for an import license. This package is forwarded through banking channels to the Government of Viet Nam's (GVN's) Directorate of Commercial Aid (DCA) for review and approval of the license and also for review by USAID. When the license has been approved, the importer is notified through banking channels.
- 3 The importer deposits with its local bank, in piasters, an agreed percentage of the cost of the transaction.
- 4 The supplier is notified of the award of the procurement through Vietnamese and United States banking channels.
- 5 The supplier ships the goods to Viet Nam.
- 6 The supplier, to obtain payment, prepares necessary documents and forwards, together with a bill of lading, the package to one of the 12 authorized Letter of Commitment banks, either directly or through its local bank.
- 7 The Letter of Commitment bank forwards the documentation to AID and receives payment.
- 8 After paying the supplier, the Letter of Commitment Bank advises the National Bank of Viet Nam (NBVN) of payment to the supplier.
- 9 The local bank pays NBVN and establishes an account receivable, due from the importer.
- 10 After the goods arrive in Viet Nam, but before the importer can acquire possession thereof, it pays the bank the remainder of the cost of the transaction or arranges credit with the bank.
- 11 The importer picks up the goods.
- 12 After reimbursing the Letter of Commitment banks for payments to suppliers, AID/Washington develops a monthly listing of all individual transactions, which is forwarded to USAID.
13. USAID uses this monthly listing as a basis for advising NBVN regarding the amount to be transferred to the jointly controlled GVN/United States counterpart account.

PROGRAM OBJECTIVES

The current primary purpose of the commercial import program is to counteract strong inflationary pressures in the Vietnamese economy. These pressures have been created by the sharp increase since 1965 in the amount of purchasing power in the economy, without offsetting changes in the economy's capacity to absorb the increase through corresponding increases in the availability of goods or through other absorptive means, such as increased tax collections.

This situation has been created by several factors, notably

1. Increased budgetary deficits by the Government of Viet Nam occasioned by a large wartime budget, GVN's limited administrative capability to enforce taxes, and there being in Viet Nam no public tradition of tax compliance. For example, GVN ran a deficit of 19.8 billion piasters on total expenditures of 45.6 billion piasters during 1965. The accompanying need for additional piasters was met by expanding the money supply through increased government borrowing and the printing of additional banknotes. Thus, the total money supply increased 77 percent during 1965, from 26.9 billion to 47.6 billion piasters. In 1966 the total money supply increased another 37 percent, to 65.4 billion piasters.
2. The infusion into the Vietnamese economy of an ever-increasing amount of money by United States elements, occasioned by our buildup in response to increased Communist aggression. For example, inclusive of troop spending and expenditures directly or indirectly attributable to military construction projects, it is estimated that almost 30 billion piasters were spent in Viet Nam during 1966. This represents a 21 billion piaster increase over 1965.

These two factors, coupled with uncertainties regarding the course of the war, resulted in a deterioration of the piaster and in a natural tendency on the part of the populace to convert piasters to goods as rapidly as possible and thereby provide some

measure of protection against continued monetary depreciation. An inflationary cycle thus was ignited in 1965. For example, the Saigon working class cost-of-living index, which USAID considers to be the most meaningful of several such indexes, indicated an annual increase of only 4.6 percent between 1960 and 1964, whereas living costs rose 40 percent during 1965 and 68 percent during 1966. In the first 5 months of 1967, living costs rose another 13 percent.

According to AID, immediate remedial action to absorb the surfeit of purchasing power, attributable to the military buildup in 1965, was limited to a major infusion of goods through the commercial import program. Previously, the program had been used mainly to support GVN's military budget (fiscal years 1955-59) and to provide GVN with foreign exchange with which to finance imports (fiscal years 1960-65). In a sense, such a program would contribute toward all three objectives. However, as discussed on page 12, the overall size and content of the program would be largely influenced by whichever objective was given primary emphasis.

AID, in stressing the counterinflationary aspects of the program, is faced with two major problems:

1. Establishing the overall commodity input needed to hold inflation within tolerable limits, on the basis of available data as to prevailing economic factors. Also, measuring overall results on a basis consistent with the establishment of the program.
2. Managing the implementation of the program in terms of commodity content, procurement, delivery and use, to avoid abuse while still accomplishing its objective.

The manner in which AID is attempting to cope with these matters is discussed in the following sections.

SURVEY RESULTS

PROGRAM FORMULATION AND ECONOMIC IMPACT

AID/Washington and USAID do not specify the size or commodity content of the commercial import program for Viet Nam, although some control is exercised by declaring which commodities will be ineligible for program financing. For eligible commodities, however, dollar funds are provided to meet the market demand, as determined by the Vietnamese import community. This practice is based on the Agency's basic premise that the importation of goods in itself is deflationary and that the interplay of market forces as reflected in requests for import licenses is the most feasible way to produce the desired counterinflationary effort. This practice represents a radical departure from the program formulation methodology normally employed by AID.

A conventional commercial import program is based on reasonably determinable program standards and related monetary ceilings. Thus, a forward-going calculation of a recipient country's budgetary deficit is made to serve as the basis for a budgetary support program. Similarly, a calculation of foreign exchange needs serves as the basis for a program designed to lend support to a recipient's balance-of-payments. The associated program formulation process involves a detailed justification by the field of both the size and the content of the proposed program and similarly detailed reviews and justifications by Washington, before AID's annual budget submission to the Congress. The extensive lead time between initial program formulation in the field and subsequent implementation (generally about 18 months) requires further justification and review to reflect interim program adjustments in connection with the allocation of program funds.

AID/Washington and USAID officials consider that conventional program formulation practices and controls are incompatible with accomplishment of the program's counterinflationary objectives in Viet Nam because (a) meaningful data on which to forecast aggregate import needs and commodity content do not exist, (b) the length and administrative complexity of the conventional programming cycle would preclude timely reaction to the fluid economic conditions which are the determining factors in the counterinflationary need, and (c) changes in economic factors are so frequent and so great as to invalidate conventional forecasts.

While there is not, in the traditional sense, a commercial import program formulation process in Viet Nam, USAID does maintain continuing analyses of available data regarding factors in that country which bear on inflation and thus affect the estimated size of the program. Top USAID and AID/Washington management officials are thus in a position to exert influence on conditions bearing on these factors.

In commenting on our draft report in April 1967, AID elaborated on the Agency's management policy for the commercial import program. The full text of their comments is included in appendix IV to this report, starting on page 71. AID/Washington stressed that, while it more-or-less permits the Vietnamese import community to determine what will or will not be imported by use of program funds, it does exercise some control by determining which commodities will not be eligible for program financing.

AID/Washington further advised us that, as the result of a recent review of the commodity content of CIP and of consultations with GVN, 18 commodity categories¹ were declared ineligible for

¹AID considers that there are 20 categories, since the category "cement" contains three types--cement, white cement, and clinker.

CIP financing, effective March 1967, on the basis that needs therefor should be met first through the use of GVN's own foreign exchange reserves. These reserves have increased about 160 percent in recent years, from \$135.9 million in January 1965 to \$351.9 million in February 1967. Further increases, through April 1967, were reported to us by AID

Following is a list of these commodities, showing the dollar value of each, financed under CIP during fiscal years 1966 and 1967, as furnished to us by AID/Washington.

	Fiscal year <u>1966</u>	Fiscal year <u>1967</u>
	(000 omitted)	
Cement	\$14,000 (est.)	\$ 197
Petroleum, oil, lubricants	13,867	16,737
Pulp, paper and products (includes newsprint transferred in June 1967 at GVN's request)	12,875	13,321
Raw and refined sugar	7,395	4,403
Miscellaneous metal manufactures	7,228	1,881
Aluminum, including scrap	4,203	989
Broad-spectrum antibiotics	4,109	1,800 (est.)
Copper, including scrap	3,938	2,505
Metal-working machinery	3,517	916
Baby powdered milk and other grain preparations	3,507	127
Coal and related fuels	2,966	5
Jute bags	900 (est.)	-
Miscellaneous vehicles, parts, acces- sories, trailers, and servicing equipment	579	131
Zinc, including scrap	446	329
Naval stores, gums, and resins	327	458
Manganese dioxide	215	142
Industrial alcohol	152	151
Lead, including scrap	<u>118</u>	<u>173</u>
Total	<u>\$80,342</u>	<u>\$44,265</u>

These commodities represented about 23 percent and 24 percent of the transactions financed under the CIP during fiscal years 1966 and 1967, respectively.

AID/Washington officials further advised us that GVN will henceforth finance the purchase of rice from sources other than the United States. This commodity is not, however, on the official transfer list. During fiscal year 1966, the United States financed about \$13.6 million worth of such imports from Thailand.

Factors bearing on the
estimated size of the program

The method currently used to estimate the size of CIP is a simplified, and broadly applied, inflationary gap analysis. This analysis compares the aggregate monetary input (inflationary factors) of the Vietnamese economy--e.g., GVN expenditures, United States expenditures, credit expansion--to the aggregate of monetary absorption (counterinflationary factors)--e.g., GVN tax revenues and imports. The excess of monetary input over monetary absorption is the "inflationary gap,"--i.e., the excess money supply that can be expected to exert inflationary pressure.

An inflationary gap analysis draws attention to two potentially controllable variables: the level of spending and the level of imports. Spending plans dictate the level of imports theoretically required to offset the inflationary impact of spending. However, AID/Washington advised us that it has always assumed that, if inflation were to get too far out of hand because commodities were not being absorbed at a sufficiently high level or for any other reason, the United States and GVN would cut back on expenditures.

In April 1966, AID provided the following additional comments concerning this gap analysis.

"We use the gap as one estimate of overall monetary inflationary pressure, it is an imperfect measure because it does not take into account such things as changes in the level of domestic production of goods, changes in the willingness of people to hold money as liquid assets, changes in the extent to which barter is used in payment for goods and services, etc. However, it is a useful measure because other means of measuring inflationary pressure are unavailable, national income statistics are

impossible to estimate with any degree of reliability at the present time, whereas most of the inputs of monetary gap analysis are relatively easy to measure.

"Gap analysis is a simplified statement of the proposition that a change in money supply determines changes in price. *** It has usually been a fact in Vietnam, however, that change in prices has been proportionately less than change in money supply *** "

For calendar year 1967, USAID estimated the level of imports required to keep the inflationary gap to an amount that the economy of Viet Nam could withstand without serious inflation. Following is a summary of some of the more pertinent monetary input and absorption factors contained in USAID's analysis, together with actions taken or contemplated to attain established targets. Specific monetary amounts are not given since such data have been designated as classified information.

Monetary input factors

1. GVN expenditures were estimated to increase in 1967. This increase is mostly attributable to increased costs associated with the prosecution of the war, a pay increase for all government employees, plus the increased cost to GVN for goods and services, as a result of the devaluation of the piaster in June 1966. At that time, the value of the piaster in financing import transactions was almost halved, from 60 to 118 piasters to the dollar. This action resulted, as anticipated, in an immediate general price increase in the economy.
2. A ceiling was proposed for Department of Defense piaster expenditures. To attain the ceiling target, steps were underway to contain piaster expenditures by
 - a. Reductions in troop spending through the establishment for them of special savings accounts, a more extensive use of recreation facilities outside of Viet Nam, and the deployment of troops away from major population

centers such as Saigon. Also, an 11 p.m. curfew might reduce spending by United States military, contractor, and civilian personnel.

- b. Reductions in local expenditures for goods and services by the United States military establishments and Government contractors.

The Department of Defense advised us that proposed spending levels for 1967 were to some extent tailored to the level of imports which, it had estimated, could be gotten through the crowded Vietnamese ports.

3. Credit was estimated to expand in 1967.

Monetary absorption factors

1. GVN revenues were estimated to increase in 1967. GVN agreed that additional revenues were necessary in view of increased 1967 government expenditures and that measures were required to improve collections of taxes then in force. A team from the United States Internal Revenue Service was in Viet Nam at the time of our review to advise Vietnamese officials on the installation of a withholding tax system, the collection of delinquent taxes, and ways to improve GVN's audit capability. Further, USAID's staff of customs advisors has been increased, partly to assist in increasing the efficiency of customs collections.
2. Imports were calculated at an increased level in 1967. To a large extent, this increase will be contributed to through increased financing of imports by GVN and the additional piaster cost of imports resulting from the devaluation.

Our survey indicated a sharp increase in the level of GVN financing of import licenses during fiscal year 1967 compared with that for the same period during fiscal year 1966, whereas total United States financing under the commercial import program and title I of Public Law 480 (agricultural commodities), declined as follows

Approved Import Licenses

<u>Source of Financing</u>	<u>Fiscal Year</u> <u>1967</u>	<u>Fiscal Year</u> <u>1966</u>
	(millions)	
United States		
Commercial channels	154.8	344.2
Direct procurement (note a)	28 0	-
Title I, P L 480	<u>131 2</u>	<u>87.3</u>
Total United States	314.0	431 5
Government of Viet Nam	<u>306.4</u>	<u>150.4</u>
Total	<u>620 4</u>	<u>581 9</u>

^aIn July 1966, GVN agreed to permit the General Services Administration to procure several commodities which theretofore had been bought through commercial channels by Vietnamese importers. This new procedure is discussed, starting on page 26

Economic impact of the program

The Saigon working class cost-of-living index maintained by USAID indicates that living costs in Viet Nam increased at an annual rate of 4.6 percent between 1960 and 1964. With the advent and/or intensification of inflation-producing factors starting in 1965 (see page 10), living costs rose 40 percent during 1965 and 68 percent during 1966. Nearly two thirds of the 1966 increase occurred during the periods immediately preceding and following the devaluation of the piaster on June 18, 1966, which, in effect, almost doubled the cost of imports. Following this period of increase, prices leveled off for several months, until November 1966, when the upward trend resumed. In the first 5 months of 1967, living costs rose 13 percent.

Top USAID and AID/Washington officials expressed the view that CIP had been a major factor in averting an even greater rate of inflation than that experienced during 1965 and 1966. For example, had program deliveries in 1966 been maintained at about the same level as in 1965, the inflationary gap would have been increased by about 7.5 billion piasters--from an estimated 24 billion piasters to about 31.5 billion.

PROGRAM IMPLEMENTATION

Implementation of CIP starts with the issuance of import licenses to Vietnamese importers, which is strictly a GVN operation. Subsequently, the importers purchase the commodities through commercial channels, except in those cases where the General Services Administration has recently undertaken the consolidated procurement of several bulk-type items (See p 26). Therefore, sound and effective surveillance by USAID over these phases of program operations is essential to determine that quantities and types of commodities accorded program financing, and subsequent procurement thereof, are consistent with United States objectives.

USAID's Commercial Import Division is charged with primary management responsibility for direction and surveillance of these matters, although other USAID and AID/Washington elements also participate. In May 1967, the Division had filled 25 of its 26 authorized positions for United States professional personnel. The majority of the on-board staff arrived in Viet Nam between July and September 1966. In January 1966, the Division had four professional employees on board. The following table shows the assignments of the staff, together with their previous AID experience.

Professional Personnel Assigned to
the Commercial Import Division as of May 1, 1967

<u>Assigned to</u>	<u>Number authorized</u>	<u>Total</u>	<u>Number on board</u>	
			<u>With prior AID experience</u>	<u>First tour with AID</u>
Division administration	4	4	2	2
Programming branch	5	5	1	4
Implementation branch	7	7	1	6
Commodity analysis branch	<u>10</u>	<u>9</u>	<u>2</u>	<u>7</u>
Total	<u>26</u>	<u>25</u>	<u>6</u>	<u>19</u>

In addition to the USAID staff's being increased, a number of management actions took place during 1966 in the form of (1) changes in basic licensing and procurement principles and (2) increased efforts to improve program operations. These matters are discussed below.

Basic licensing and procurement changes

Negotiations concluded with GVN in July 1966 resulted in the following basic reforms, designed to improve program operations:

1. Limited open general licensing--GVN agreed to abolish a long-standing quota system which allocated foreign exchange to designated importer groups and also agreed to liberalize requirements for admission of new firms into the Vietnamese import community. These measures were designed to increase competition and thus avert monopolistic practices which had resulted in commodity hoarding for the purpose of creating artificial shortages and thus inflated prices.

Prior to the July 1966 agreement, importers were divided into 18 commodity groups by GVN, with members of the groups having the exclusive right to import certain designated commodity categories. GVN's own foreign exchange and rights to participate in commercial import program financing were allocated to members of these groups under a quota system, and membership in the groups was rigidly controlled. USAID management is generally agreed that GVN has abolished the quota system.

USAID management also believes that GVN has liberalized requirements for admission to the groups of new importers, who are admitted upon their demonstrating financial responsibility and complying with citizenship requirements. The financial requirements for registering new import firms include a minimum paid-in capital

of 15 million piasters and a performance bond of 1 million piasters. Further, at least 70 percent of a new import firm must be owned by persons who have been Vietnamese citizens for at least 15 years. These financial and citizenship requirements do not apply to previously established firms.

At our request, USAID officials obtained from GVN's Directorate of Commercial Aid information regarding overall membership in the commodity groups. These data showed that, on August 19, 1966, there were 761 eligible importers who resell commodities that they import, including 140 admitted since the July reforms. The remaining 621 were group members prior to the reform. The data showed further that, in November 1964 also, the total number of such eligible importers was 621 and that, in August 1962, the number was 791. Further, on October 31, 1966, there were 1,670 end users (e.g., manufacturers purchasing goods for their own use) entitled to import goods into Viet Nam. Comparable data for earlier periods were not available.

AID/Washington informed us in April 1966 that, while their information on import firms does not differ in magnitude from that of USAID, they could not confirm the validity of USAID's data. They stated that many firms belong to more than one commodity group and that some firms are registered with the Directorate of Commercial Aid but not with the Directorate of Controlled Economy, and vice-versa. They also stated that many of the supposedly new firms now permitted to operate in additional commodity groups are old and established firms which have reregistered.

According to the July 1966 agreement, newly admitted firms may import any and all commodities eligible for program financing. At the conclusion of our field work, however, USAID had not developed data as to how extensively the newly admitted importers were participating in the commercial import program, but USAID officials expressed the belief that these importers were participating in only a narrow range of commodity categories.

Importers who became group members prior to the reform are still restricted to importing in accordance with their previous designations. In an effort to enhance prospects for complete importer competition, United States negotiators unsuccessfully sought to remove this barrier. GVN would not agree because it felt that time should be allowed to determine the effectiveness of the changes made and for importers to adjust thereto. The July 1966 agreement did call for a September 1966 study of the question, but the resignation of key GVN officials resulted in a postponement. There are no indications as to when this matter will be reopened.

AID/Washington has stated that, in its view, adequate provision has been made for participation by all firms that wish to import, since old Vietnamese firms can reregister under new names if they meet the requirements of the law.

While it is true that old firms can reregister under new names, provided they can meet the financial requirements, GVN data showed that over 80 percent of the eligible import firms that resell commodities were old firms restricted to importing within designated commodity categories. At the conclusion of our field work, USAID had very limited information available on the internal operations of the Vietnamese importer groups and, as stated previously, data had not been developed as to how extensively newly admitted

importers were participating in the CIP. Because of this lack of information, we do not believe it possible to evaluate the success of this reform measure in accomplishing its basic objective--
averting monopolistic practices by importers.

2. Increased supplier competition

AID/Washington's Office of Small Business is responsible for complying with the provisions of section 602 of the Foreign Assistance Act of 1961, as amended. The section charges AID with the responsibility for making available to interested business firms information concerning proposed purchases of commodities for foreign assistance purposes. In the case of Viet Nam, prospective purchases of \$10,000 or more are circularized by AID/Washington. This permits competition among eligible firms in supplying program-financed commodities.

One importer device to preclude such competition was to request numerous import licenses for purchases valued at under \$10,000, which allowed the importer to deal directly with a supplier of its own choosing. Procurement of silver nitrate is illustrative of the manner in which importers were avoiding competition. During fiscal year 1966, purchasers of this commodity were granted 199 import licenses totaling \$1,380,000. Each license was valued below \$10,000 and 95 were valued between \$8,601 and \$9,986 each.

The absence of more stringent regulations prior to July 1966 reportedly permitted a number of collusive practices between importers and suppliers, generally involving the overpricing of program commodities and associated kickbacks. Devices employed were outright overpricing, shipment of inferior-grade goods, and short shipments. In an effort to reduce these practices, GVN agreed to the implementation of a system designed to effect greater competition among potential suppliers.

The new system provides that each Vietnamese importer, except in unusual circumstances, will be limited to only three licenses in dollar values of below \$10,000 each during any calendar quarter. It is anticipated that, if this policy is followed, the individual importer will be forced to consolidate requirements and that those whose imports are expected to total in value over \$10,000 will be accorded some degree of competition. The provision for a limited number of licenses for purchases under \$10,000 is designed to meet the legitimate needs of importers which cannot be feasibly consolidated. Small end users who import small quantities of raw materials exemplify such cases.

Summary data provided to us by AID/Washington showed that, during the first 8 months of fiscal year 1966, 52 percent of the dollar value of approved import licenses was for licenses valued at over \$10,000. During the first 6 months of fiscal year 1967 (the new procedure was initiated early in the fiscal year), they had risen to 75 percent. On the other hand, our analysis of an estimated \$4.9 million worth of licenses, which were reviewed by USAID for other reasons between October 7 and November 29, 1966 (see p. 40), indicated that only 41 percent of their dollar value was for licenses which were in dollar amounts of over \$10,000. AID officials could provide us with no explanation for the inconsistency of these data.

In June 1967 we were informed that AID had under discussion with GVN a proposal that would, with certain exceptions, reduce from \$10,000 to \$5,000 the cost level at which individual import transactions must be submitted to the Office of Small Business. Also, AID would not finance any transactions below \$5,000.

3. Procurement by the United States General Services Administration--A major reform agreed to by GVN, was to permit the General

Services Administration (GSA) to purchase seven designated bulk commodities which had been imported previously through normal commercial channels. The purpose of this procedure is to sever all possible collusive links between importers and suppliers, achieve cost economies through bulk procurement, reduce shipping and unloading times, and improve control and management of shipping to increase overall efficiency and reduce port congestion.

In negotiations leading to the GVN agreement permitting this type of procurement, GVN representatives expressed apprehension that this procedure might prove cumbersome and result in shortages of key commodities and accompanying price increases. They agreed, therefore, to the inclusion of only seven commodity types initially.

In March 1967, three of the seven commodities--white cement, jute bags, and rice of non-United States origin--were transferred from United States financing under the commercial import program to GVN financing. (See pp 13 through 15.) No procurements of these commodities had been made by GSA. The procurement activity by GSA for the remaining four commodities as of June 9, 1967, was as follows:

<u>Commodity</u>	<u>Amount obligated</u>	<u>Type of contract</u>	<u>Status</u>
Fertilizer	\$ 4,807,000 14,670,000	Competitive negotiation do	Arrived Partially shipped
Galvanized iron, sheet	5,000,000	Formal competition	Shipped, partially arrived
Tinplate	150,000 1,200,000	Competitive negotiation do	Arrived Contract awarded
Newsprint (note a)	920,000 <u>1,300,000</u>	do do	Arrived Do
Total	<u>\$28,047,000</u>		

^aOn June 20, 1967, newsprint was transferred from United States to GVN financing, pursuant to the GVN's request (see p 31)

During fiscal year 1966, \$25 6 million worth of these four commodities were authorized for importation under CIP.

The procurement cycle under the procedure for GSA purchases is initiated when individual importers submit their requirements to GVN's Directorate of Commercial Aid. The requirements are consolidated and a single request is forwarded to USAID, which in turn forwards it to GSA through AID/Washington. USAID officials stressed the fact that they had not altered the quantities requested by the Directorate. They advised us that, in the case of galvanized iron sheet, the Directorate made an upward revision of the quantities requested by the importers to avoid a shortage and a resultant price increase on this commodity. This was the only modification of importer-requested quantities that they knew of, but they had no specifics on this upward revision.

When the GSA procurement procedure was devised, it was expected that the commodities would be procured through formal bidding procedures. GSA advised us in March 1967 that short lead times and specification and funding problems still present difficulties with respect to providing timely deliveries, particularly when formal advertising procedures are used. They stated that competitive negotiation appears to be the most advantageous method of procurement under the program as now operated by AID.

Existing plans call for commodities to be shipped by the Military Sea Transportation Service (MSTS), except when the use of commercial vessels would be clearly preferable. Where MSTS is employed, the United States Army's inland transportation system in Viet Nam will be used to move commodities from the port area to the first destination.

During the course of our field work, we noted a number of matters which remained to be resolved, including

- 1 Under this system of GSA procurement, title to commodities passes to GVN and then to individual importers, rather than directly to the latter. Existing procedures do not require importers to initially obtain an import license or to accompany their requests with formal bank guarantees, as is necessary in the case of purchases made through normal commercial channels. USAID officials advised us that importers are nevertheless obligated to GVN to accept the commodities requested and, when the price is known after award of the contract, to obtain import licenses and bank guarantees.

Importers did not request import licenses or furnish bank guarantees for fertilizer, which began arriving in December 1966. Available evidence indicated that the importers were reluctant to accept the fertilizer because of the GVN price controls thereon, difficulties in competing with GVN-subsidized fertilizer provided by the United States under the USAID-sponsored pacification program, and financial difficulties associated with the devaluation of the piaster.

AID subsequently advised us that the first procurement of fertilizer, costing about \$4.8 million, was transferred from the CIP to the pacification program.¹ About 67,000 metric tons (MT) of fertilizer previously imported under the program was similarly transferred in 1966. AID also advised us in April 1967 of the following basic change in the internal distribution system for fertilizer:

"In the past there were two separate fertilizer programs--one funded under Counter-Insurgency and distributed by agricultural cooperatives, the other funded under the CIP and sold commercially. The new system provides for a single Vietnamese entity to manage importation and distribution. Even though procurement will be funded against

¹This program has been known by names such as Counter-Insurgency, Revolutionary Development, etc.

the Counter-Insurgency program, all but about 20,000 MT per year will be sold commercially through cooperatives, farmers' associations, and commercial enterprises "

We also inquired as to what plans existed to arrange for importers to accept and pay for the galvanized iron sheet added to their requests. Branch officials felt that GVN would probably stockpile the remainder in case it was not needed on arrival, but they knew of no firm plans (see p. 32).

2. Title to commodities procured by GSA passes to GVN when commodities are loaded aboard a commercial vessel or if shipped via MSTs, when they are delivered to a GVN warehouse at point of first destination

At the time of our field work, USAID expressed some reservations regarding the use of MSTs, because AID's agreement with the Department of Defense called for using the United States Army's local inland transportation system. This entails the use of a civilian contractor, without military drivers or guards, which is not contractually required to accept responsibility for losses incurred between the port and first destination, and could result in AID sustaining substantial losses.

We discussed this situation with AID/Washington officials upon completion of our field work. We were subsequently informed that, as a result of the discussion, USAID had arranged for an independent inspection firm to provide guard service for the transport of commodities between the vessel and the point of first destination.

In March 1967, the Acting Administrator, GSA, advised us of his view that GSA participation in CIP should be progressively expanded. He stated

"We feel strongly that GSA is in a position to make a genuine contribution to the success of the Commercial Import Program. Specialists with many years of training in the various aspects of supply management, including specification preparation, procurement, quality control, and transportation, are available to participate to the

extent required in connection with specific commodities Through use of these skills, we are confident that it will be possible to provide timely delivery of merchandise of known quality at advantageous prices "

The Acting Administrator said further that GSA is working and will continue to work closely with AID toward increasing GSA's participation in the program

In July 1967, subsequent to the completion of our review work and discussions with Agency personnel, AID reported on the status of GSA-procured commodities as follows

- 1 The advantages anticipated, particularly more economical procurement costs with resultant lower prices to consumers, had not been borne out by actual experience The first commodity procured by GSA, newsprint, resulted in much higher costs than experienced under previous commercial procurement. Most of the additional cost came about because of much higher shipping and discharge rates resulting from the narrow range of United States Army freight handling tariffs as compared with tariffs utilized in the commercial trade
2. The higher cost of this procurement was immediately picked up by the Saigon press, which lost no time in publicizing the adverse effects that such procurement would have on the local economy. As GVN found itself required to absorb the additional cost in the form of an increased subsidy, it advised USAID that it would procure all newsprint with its own foreign exchange.
3. Regarding tinplate, the technical requirements of the major end users vary and their delivery requirements rarely coincide, making it extremely difficult, if not impossible, to procure such material efficiently under any consolidated procurement concept Further, while GSA-procured tinplate proved to be cheaper on a delivered basis, the saving was nullified by the higher United States Army freight handling rates to initial storage in warehouses

4. The importer incurred a second transportation cost to move the tinplate from the warehouse to his premises. This was unavoidable, as the material remained in United States custody for a period of 2 months before final cost data were obtained on which to bill GVN and transfer the material to it. This delayed the granting of import licenses by GVN
5. Similar obstacles were encountered in transporting galvanized steel sheet procured through GSA. In addition, the producing mills and brokers were unable to provide deliveries in the periodic quantities desired by GVN. As a result, USAID retained the materials in insecure outside storage areas until such time as GVN accepted the quantities needed. Billing costs to GVN also were difficult to ascertain because of shortcomings in documentation

Because of the recency of the information outlined above, we are unable to fully analyze its significance in relation to the position advocated by the Acting Administrator, GSA, that this type of procurement be expanded. We believe, however, that a number of the present difficulties could be corrected on the basis of experience and that AID, GSA, and the United States Army therefore should address themselves to resolving these problems.

We noted also that procurements through GSA are limited to bulk commodities and that consideration has not been given to utilization of GSA's General Schedule of Supplies procedure as part of the regular CIP licensing procedure.

Recommendation

We therefore recommend that AID (1) devote its best efforts to correcting, in conjunction with GSA and the United States Army, the difficulties which have been encountered in making bulk procurements of certain commodities through GSA and (2) consider pressing GVN to expand the list of commodities to be procured through GSA, including the utilization of the General Schedule of Supply in connection with relatively small individual procurements

Measures taken to
improve program operations

Because of considerable concern expressed by both the Congress and the executive branch regarding problem areas in the effective management of the implementation phase of this program, USAID initiated and/or placed increased emphasis on the following measures.

1. Commodity analysis--Nine of the Commodity Analysis Branch's 10 authorized employees were in Viet Nam on May 1, 1967, a tenth staff member had not yet been hired. A series of studies designed to yield quantitative data regarding market conditions, indigenous absorptive and productive capabilities, stocks on hand and in the pipeline, and related information, were under way by some of these analysts at the conclusion of our field work. These data are to be used to assist Vietnamese importers to better gauge their needs and thus to influence their decisions regarding importation of commodities. USAID officials stressed the fact that these studies were designed to effect "constructive interference" only and that the final decision as to whether to import would still rest with the import community, provided the commodities were otherwise eligible for program financing.

The actual or prospective assignments and prior AID experience of the Branch's nine on-board employees as of May 1, 1967, are shown below.

<u>Area of responsibility</u>	<u>Prior AID experience</u>
Branch Administration	Yes
Commodity Analysis	
Pharmaceuticals	Yes
Food and fertilizer	No
Nonmetallic minerals, iron and steel	
mill products, nonferrous metals	No
Plant and machinery	No
Textiles	No
Chemicals	No
Transportation	No
Miscellaneous	No

The analyst for pulp and paper products had been transferred to another USAID office.

With one exception, the personnel on board arrived after June 1966. USAID officials expressed the view that all Branch employees had adequate background and experience to perform their duties. They did add that it would take some time for the commodity analysts to become fully productive because of unique conditions within Viet Nam and of the necessity for personnel without previous AID experience to overcome this lack of experience.

The commodity analysts are charged with acquiring, both independently and in conjunction with personnel of other USAID offices, detailed quantitative information relating to market conditions, indigenous absorptive and productive capacity, commodity pipeline data, and other relevant information for incorporation into a series of "Sectoral Studies " These studies are performed mainly by Sectoral Study committees which consist of analysts and other USAID technicians and are intended to yield quantitative information in commodity areas more finite than the 10 broad categories listed above For example, the following table shows the six studies undertaken at the time our field work was completed in December 1966, categorized under more finite commodity area and broad commodity area, and their status

Quantitative sectoral studies
undertaken through December 1966

<u>More finite commodity area</u>	<u>Broad commodity area</u>	<u>Status December 1966</u>
Newsprint	Pulp and paper	Completed
Pulp, paper and packaging	do	Do.
Rice	Food and fertilizer (note a)	Final draft in process
Sweetened con- densed milk	Food and fertilizer (note a)	In process
Construction and construction material	Nonmetallic minerals and iron and steel products	Do.
Pharmaceuticals	Pharmaceuticals	Returned for more detailed analysis- suspended

^aNot participated in by the commodity analyst but by other USAID elements.

Top mission management also proposed to have studies made of chemicals, textiles, and fertilizers, but no starting dates had been established at the conclusion of our field work.

Guidance for the performance of sectoral studies was formulated by USAID management in August 1966. Initially, the studies were to be descriptive and statistical and indicate the capacity and capability of each designated indigenous industry, its raw material requirements, and its import needs. Also, the studies were to ultimately indicate whether and how the commercial import program might be used to influence the commodity field being studied.

Our review indicated that this was done upon USAID's own initiative and without AID/Washington guidelines, but with AID/Washington knowledge and approval. To supplement these studies, USAID

also proposed the employment of an independent consultant firm to study rice, sugar, pharmaceuticals, fertilizers industrial chemicals, iron and steel products, cement and man-made fibers and yarns. AID/Washington agreed to this proposal and was scheduled to start negotiating a contract with a consultant in late March 1967.

In the course of our survey, we endeavored to determine the adequacy of the quantitative data available to the commodity analysts. With perhaps two notable exceptions--"Newsprint" and "Pulp, paper, and packaging" where input data were apparently considered adequate to justify approval and release of these reports--much essential data was not readily available and could be developed only through extensive contacts with importers and end users. Therefore, the following steps were initiated to enhance the commodity analysts' data gathering and retention capabilities.

1. In November 1966, a procedure was initiated to record, for individual importers and manufacturers, information regarding productive capacity, inventories on hand and in pipeline, historical imports, and related data. The analysts are to obtain the required information, mainly by contacting individual members of the local business community.

2. Pipeline data regarding a selective number of bulk-type commodities--i.e., cement, clinker, fertilizer, sugar, newsprint, coal, wheat flour, condensed milk, and rice--is reported bimonthly, on the basis of information obtained from GVN agencies, other USAID offices, and the Vietnamese business community

3. As part of a relatively long-range plan, USAID personnel were working on an automated inventory accounting system. (See p. 53.) As visualized by USAID and AID/Washington management, the system will ultimately yield periodic data on the complete pipeline and delivery status of program commodities--from license application through consignee pickup. September 1967 has been established as the target date for complete implementation of the system

2 License reviews--The Commercial Import Division's principal focus in this area is to assist GVN in ensuring that requests for program financing are in accordance with prescribed policies and procedures of AID. The reviewer is assisted, in doing this, by commodity analysts and employees of other offices within USAID. Review steps employed depend upon whether the commodity or commodities proposed for program financing are valued at over or under \$10,000, as follows:

a. If the prospective procurement is valued at under \$10,000, the reviewer stationed at GVN's Directorate of Commercial Aid determines if the prospective purchaser has complied with the requirement that he not be granted more than three such licenses each calendar quarter. The reviewer also, either independently or together with an appropriate commodity analyst or other USAID technician, screens the license for eligibility of both parties to the transaction, eligibility of the commodity or commodities for program financing, and source-origin. USAID maintains listings yielding these data. Technicians in the USAID Industrial Development Division also pass on the suitability of machinery intended for the importers' plant, but do not often inquire into the requirement for the machinery itself.

b. If valued at \$10,000 or over, the prospective procurement is reviewed initially by the commodity analyst or other USAID specialists for commodity eligibility, adequacy of specifications to ensure clarity and that they are not restrictive, and source-origin. Investigations on suitability of manufacturer-destined machinery are also performed. The prospective procurement is then sent to AID/Washington for publicizing for solicitation of bids, where similar reviews are performed. Offers are sent directly to the prospective importer, with copies to be sent the Directorate. Since October 1966, prospective suppliers are required to send copies of offers to USAID also.

The importer is expected to accept the lowest responsive offer, although neither the Foreign Assistance Act of 1961,

nor AID regulations require that this be done. After the importer accepts an offer a pro forma invoice and other required documents are submitted by the importer to the GVN Directorate. USAID's reviewer checks the Directorate's abstract of bids to verify acceptance of the lowest responsive offer and evaluates the explanation of an importer who elects to accept other offers. Again the license is screened for eligibility of the commodity or commodities enumerated therein, parties to the transaction, and source-origin.

The foregoing procedures indicate that all requests for program financing are screened at least once during the license-procurement cycle, except for price. Relatively random checks were performed prior to the mid-1966 personnel augmentation. USAID reviewers do not perform price reviews to determine the reasonableness thereof. For proposed procurements valued at under \$10,000, employees of the GVN's Directorate perform price reviews. If procurements are valued at over \$10,000, reliance is placed on the interaction of market forces if there is competition, and on the Directorate's review where only one responsive offer is received. We noted that AID/Washington's Financial Review Division performs a postaudit of CIP transactions, which includes an examination of the reasonableness of price. Post facto refund actions can be initiated as a result thereof. (See p. 123.)

USAID officials emphasized that their role as reviewers is to advise the GVN Directorate employees, and that USAID reviewers have no de jure right to reject the granting of a license for any reason--they can only suggest that the Directorate consider disapproval. They further stated that they had encountered no difficulties in this regard with the Directorate.

We also analyzed 100 of the approximately 2,400 importer activity files maintained by USAID to ascertain the extent of, and

reasons for, recommendations for rejections of proposed procurements valued at over \$10,000. These firms submitted 183 proposals between August and November 1966, 142 of which were approved in whole or in part after USAID and AID/Washington review. Of the 41 recommendations for disapproval, 39 originated in Saigon and two in Washington. An additional 20 proposals also received unfavorable recommendations by USAID reviewers and 16 by AID/Washington, but objections were withdrawn when the noted defects were remedied.

Data regarding the total tentative dollar value of proposed procurement valued at over \$10,000, initiated during the August-November 1966 period, were not readily available since, during this entire period, neither USAID nor the GVN's Directorate maintained workable records to yield such information. The 183 proposals we examined involved commodities with a tentative value of \$14,258,011, of which \$10,107,681 worth were finally approved. The reasons for the \$4,150,330 worth of proposals not being favorably commented on by USAID and AID/Washington are as follows

Sample of
Tentative Proposed Procurements Valued at
Over \$10,000 not Favorably Commented on
Between August and November 1966

	<u>Total</u>	<u>USAID</u>	<u>Originated by</u> <u>AID/Wash-</u> <u>ington</u>
Ineligible or inappropriate for AID financing	\$ 513,417	\$ 513,417	\$ -
Specifications and similar types of informational de- fects	2,782,073	2,782,073	-
Procurable only through the General Services Administra- tion	809,300	159,300	650,000
Not manufactured in the United States	<u>45,540</u>	<u>-</u>	<u>45,540</u>
Total	<u>\$4,150,330</u>	<u>\$3,454,790^a</u>	<u>\$695,540</u>

^aExclusive of proposals with a tentative value of \$1,740,763, which were approved following remedy of defect.

We also performed an analysis of all licenses reviewed between October 7 and November 29, 1966, from summary records initiated by the USAID reviewer at the GVN's Directorate. This study yielded the following data.

Recommendations Made
Regarding Proposals for Program Financing
October 7 through November 29, 1960

	<u>Total</u> <u>reviewed</u>	<u>Recommended</u> <u>for approval</u>	<u>Not</u> <u>recommended</u> <u>for approval</u>
Proposals of \$10,000 or over			
Number	43	36	7
Tentative Value	\$2,010,302	\$1,886,094	\$124,208
Proposals under \$10,000			
Number	767	748	19
Value	\$2,895,817	\$2,781,821	\$113,996
Total Proposals:			
Number	810	784	26
Estimated Value	\$4,906,119	\$4,667,915	\$238,204

The reasons furnished us for the unfavorable recommendations were as follows

- 1 More than three licenses per quarter for procurements valued at under \$10,000
- 2 Ineligible commodity.
3. Ineligible importer
- 4 Insufficient justification given for not accepting the lowest bid for proposals for procurements valued at over \$10,000

3 Suspended firms--In July 1966, an Importer Review Committee was established within the USAID to review program-financed transactions for compliance with applicable AID regulations. The committee, which meets about once a week, consists of five members--one representative each from USAID's Office of Financial Management, Special Projects unit, Office of Logistics, Commercial Import Division, and Office of the Legal Advisor. The committee initiates, among its responsibilities, recommendations to GVN regarding the suspension of any importer for practices inconsistent with AID regulations, but these recommendations are not binding. Recommendations for suspensions must include a stated period of time. It seems that the committee is also concerned with recommending to AID/Washington suspension or debarment of suppliers, although this responsibility is not one noted in its charter.

Our review of the minutes of committee meetings for the period since the committee's formation disclosed that no recommendations for suspension or debarment of either importers or suppliers had been made through mid-November 1966. The committee is also empowered to recommend the lifting of importer suspensions, predicated

upon correction of deficiencies or insufficient evidence, and we found that they had done so in a number of cases as noted below.

Prior to July 1966, no single USAID office was empowered to recommend to GVN the suspension of importers. Importer suspensions were also made upon GVN's own initiative. As a result, a total of 48 importers were suspended by other than the committee's action during 1966. There were no records indicating whether, prior to the committee's formation, USAID recommendations regarding suspensions were not concurred in by GVN. Similarly, we found no record of any suspensions made prior to 1966, which were still in effect. As of mid-November 1966, 33 importers had been reinstated, 30 on the basis of insufficient evidence and 3 as a result of the correction of recordkeeping deficiencies. Suspensions were still in effect for 15 importers for the following reasons.

Suspended Importers
as of November 8, 1966

<u>Reason for suspension</u>	<u>Total</u>	<u>Action initiated by</u>	
		<u>USAID</u>	<u>GVN</u>
Imported substandard machinery	3	3	-
Over-pricing	1	-	1
Goods in warehouse for too long a period	4	-	4
Speculation	2	-	2
Inadequate records	1	1	-
No reason noted	<u>4</u>	<u>1</u>	<u>3</u>
Total	<u>15</u>	<u>5</u>	<u>10</u>

The committee's charter also provides that recommendations for suspension may be extended to any other firm in which a suspended firm holds a beneficial interest in excess of 49 percent. Our survey indicated that USAID had no background information on importers,

which would allow reviewers to identify such firms, and that GVN had complete responsibility in this regard. We also found that a proposed questionnaire that might have yielded this information was not sent to GVN because top USAID management considered the requested information too sensitive. There were no further plans to obtain this information, and USAID is relying on GVN reviewers to nullify this potential practice.

At January 6, 1967, AID/Washington had suspended 21 suppliers on the basis of USAID recommendations for the following reasons:

Suspended Suppliers
as of January 6, 1967

<u>Reason for suspension</u>	<u>Number of firms</u>
Falsification of certificate of origin	4
Supplier of substandard lathes	4
Other irregularities	2
Affiliates of the 10 suspended firms, above	<u>11</u>
Total	<u>21</u>

4 Ineligible commodities--Cognizant USAID and AID/Washington officials may determine commodities to be ineligible for program financing, or eligible under controlled conditions, for a variety of reasons, such as goods that should be bought with the GVN's foreign exchange, luxury items, goods produced within Viet Nam, and commodities susceptible to unauthorized use and/or use by the enemy. Until mid-1966, there was no regularized system for bringing such matters to the attention of USAID reviewers after such determinations had been made, nor for definitizing the reasons therefor. In some cases, commodities were declared ineligible through inadvertence.

At the time of our field work, USAID personnel had established a formalized system for adding to, and deleting from, the ineligible list. The list was also being consolidated to make it more workable. Thus, where various types of nuts (e.g., betel, canned, lychee, almond, etc), were previously listed separately, one category--"nuts, all"--was established. In another case, an overall category of "wearing apparel, all" was established in lieu of separate designations for berets, clothing, shoes, shirts, etc

As a result of these efforts, the number of line items appearing on USAID's newly initiated listing was reduced from 401 in October 1966 to 268 in November 1966. USAID officials expressed the view that this consolidation should assist employees reviewing license applications to more readily identify designated items. It should also, we were told, prove helpful in identifying commodities requiring case-by-case approval and end-use examination.

The following table shows the stated reasons for placing items on the listing and the number of items in each category as of November 23, 1966, and March 5, 1967. Those added by USAID were sometimes added as the result of broad criteria provided in AID regulations and other guidelines. The absence of historical data militated against our specifically identifying originating offices or obtaining a more finite breakdown in practically all cases

Ineligible/Eligible-Controlled Items
as of November 23, 1966 and March 5, 1967

<u>Reason</u>	<u>Number of items</u>	
	<u>November 23, 1966</u>	<u>March 5, 1967</u>
AID-designated		
Ineligible	46	50
Eligible with AID/Washington approval on a case-by-case basis	22	22
Eligible only through national stockpile or barter arrangements	23	23
USAID-designated		
Indigenously produced or manufactured	19	16
Public Law 480-type	3	3
Economic warfare	2	20
USAID/GVN independently originated	129	121
Injurious or dangerous	11	8
Other	7	7
No reason designated	<u>6</u>	<u>4</u>
	<u>268</u>	<u>274</u>

As noted on pages 13 to 14, an additional 18 commodity categories were added as of about the end of March 1967, on the grounds that needs therefore are best satisfied by using the GVN's foreign exchange. Also, as noted on page 31, newsprint was added in June 1967 at the request of the Government of Viet Nam, because of difficulties associated with the procurement of this commodity by the United States General Services Administration.

PORT ACTIVITIES

Between 90 and 95 percent of all commercial cargo, including that financed under CIP, enters Viet Nam through the port of Saigon. In addition, a massive amount is being brought in by United States military forces. Thus, port conditions in Saigon are the focal point of many problems facing USAID in its effort to successfully accomplish the principal objective of CIP--to make available sufficient goods to reduce to a tolerable level inflationary pressures within Viet Nam.

The port of Saigon is divided into military and commercial sectors. The latter receives commodities financed under CIP and other USAID-sponsored programs, GVN-financed imports, and other goods, such as personal effects of United States contractor personnel and supplies consigned to the official United States community in Viet Nam. Thus, any discussion of port activities as they affect the program must, of necessity, consider the entire commercial port area, particularly in considering operational-type data.

We found that significant improvements had been made by the end of June 1967, regarding congestion in the commercial sector of the port of Saigon. We also noted that by March 30, 1967, some improvements were made in the time taken to discharge cargo from vessels.

We noted also that USAID had laid the foundation for an inventory accounting system to establish accountability for incoming commercial import program goods and to yield data relative to the pipeline and delivery status of such goods. Our field work at the end of 1966, showed that the system was not completely satisfactory.

for this purpose. The Agency's response to us, dated April 27, 1967 (see app. IV, p. 73) did not indicate whether any substantial improvements had been made in the system since December 1966, although the response did outline improvements in other areas discussed in our original report draft. In our view, such a system is one of the highest priorities in the entire management spectrum of the CIP.

Port operations

Commercial cargoes that have been discharged in Saigon, or are ready for discharge, are located at the following points prior to pickup by the consignee:

1. Transit sheds These are not intended for prolonged storage of cargo, but rather as transitory facilities for discharged cargo awaiting consignee pickup.
2. Barges on the Saigon River The cargo capacity of these varies from a low of about 50 tons to a high of about 500 tons.¹ Because of storage limitations in the physical port area and the slow pickup rate of cargo by consignees, large quantities of commercial cargo are discharged directly from ocean vessels to barges. Army advisors reported that on March 10, 1967, there were 860 barges carrying a variety of cargo. Some of this cargo had been loaded as early as 7 months before and had not yet been discharged.

¹Official reports from the Military Assistance Command, Viet Nam, and USAID utilize an average of 75 metric tons per barge in computing overall tonnages aboard barges, which is extremely close to the lower limit of barges' overall capacity range. In October 1966, USAID technicians told us that an average of 175 metric tons per barge would be realistic.

- 3 On-board vessels Limitations in discharging vessels and in storing cargo resulted in much cargo remaining aboard vessels both in Saigon and other Far East ports, such as Manila and Hong Kong As shown below, significant improvements had been effected by the end of June 1967

Our analysis of the overall commercial cargo backlog at the port showed that inventories built up significantly during calendar year 1966 and then declined markedly by June 30, 1967, as follows

Tonnage of Commercial Cargo

	<u>Total</u>	<u>Sheds</u>	<u>Barges</u>	<u>Vessels</u>
	(metric tons)			
July 1, 1966	174,167	20,486	29,775	123,906
Sept 30, "	284,320	11,352	44,025	228,943
Dec. 31, "	391,153	22,503	107,700	260,950
Mar 31, 1967	202,033	19,566	57,750 ^a	124,717
June 30, "	82,407	13,389	7,050 ^a	61,968

^aExcludes increasing quantities of cargo custom cleared aboard vessels and discharged into barges Data regarding custom-cleared cargo aboard barges were not available through United States agencies in Viet Nam

The following table summarizes reported arrivals and discharges of commercial cargo, by 3-month intervals, between July 1, 1966 and June 30, 1967.

Approximate Arrivals and Discharges by 3-month Intervals
July 1966 through June 1967

	<u>Arrivals</u>	<u>Discharges</u>	Discharges more(+) or less(-) than arrivals
	(metric tons)		
July to Sept 1966	685,000	580,000	-105,000
Oct " Dec "	789,000	757,000	-32,000
Jan " Mar , 1967	633,000	769,000	+136,000
Apr " June "	783,000	846,000	+63,000

Although the amount of cargo being discharged from vessels has shown significant increases, the United States is incurring substantial costs as a consequence of excessive time between the arrival and departure of vessels carrying CIP and other AID-financed cargo in Saigon and other ports in Viet Nam. The nature of these costs varies, depending on the type of shipping contract employed to transport the commodities.

- 1 Voyage-chartered vessels are leased for the transport of cargo to a specific port or ports, the charterer being allowed a specific number of days to unload the vessel. To the extent that the time is exceeded, an agreed rate of "demurrage" is paid, on the basis of the cost of the vessel, operating costs while it is in port, plus the loss of potential profit.

AID estimates that it will pay about \$5.6 million in demurrage during fiscal year 1967. In one rather extreme case, a shipment of 4,000 tons of CIP cement took 95 days to offload from the date of arrival, and demurrage charges of \$131,200 were estimated. This represented 150 percent of the cost of the cement.

- 2 Berth term vessels transport cargo on the basis of a fixed rate per ton of cargo. No demurrage accrues as a result of offloading delays because the rate itself includes a component to cover this contingency, known as a "congestion surcharge." AID estimates that it will finance a total of about \$9.9 million in congestion surcharges during fiscal year 1967.

AID/Washington advised us that a commitment had been obtained from GVN to pay all past and future demurrage costs for rice. Following expiration of current contracts, cement will no longer be financed under CIP, thus the possibility of the United States paying demurrage on this commodity will be eliminated.

Fertilizer is the third major commodity involving demurrage payable by the United States. AID hopes that this commodity will be moved through the port more expeditiously. If not, the Agency

hopes these costs will be passed along to the importer through GVN. We have been advised that AID and GVN are currently engaged in finalizing new fertilizer arrangements.

Our analysis of vessel arrivals and departures to and from the Saigon port area showed some improvement in the time taken to discharge cargoes from vessels. Following is a summary of such times for selected dates between July 1, 1966 and March 31, 1967.

Average Days in the Saigon Port Area
of Vessels Transporting Commercial Cargo

		—————(days)—————			
		<u>Total</u>	<u>To discharge</u>	<u>Awaiting discharge</u>	<u>Number of vessels</u>
July	1, 1966	32 6	19 3	13 3	36
Sept	30, "	41 3	17 5	23 8	52
Jan	1, 1967	54.2	15 8	38 4	62
Feb.	3, "	62 5	18 5	44 0	43
Mar.	3, "	59 1	17 6	41 5	38
"	31, "	47 8	14 7	33 1	41

On the basis of discussions with USAID and Army officials, as well as a review of appropriate reports and memoranda, we found that port congestion in Saigon is attributable to a combination of any or all of the following factors:

- 1 The extremely high level of CIP licensing during fiscal year 1966, which resulted in a high level of cargo arrivals during the early part of fiscal year 1967. AID/Washington advised us that arrivals of commercial tonnages would drop in July and August 1967--and possibly sooner--as the result of a decrease in the rate of import licensing which began in September 1966.
- 2 A tightened monetary situation caused by the devaluation, which made it difficult for importers to raise the capital necessary to complete the financing of incoming imports. The increase in the exchange rate from 60 1 to 118 1 in

June 1966 practically doubled the pre-custom-duty price to the importer of goods ordered prior to June 18, 1966, but delivered afterward

- 3 Unrealistically low warehouse tariffs and barge rentals at the port. The transit sheds and surrounding areas are intended to serve only as "inspection-classification" areas for GVN customs. However, because there are no strong motivational reasons on the importers' part to move goods out expeditiously, it is more advantageous to not do so and to pay the relatively nominal charge for transit sheds and barges since

- a Adequate warehouse space in the Saigon-Cholon area is scarce and, when available, expensive
- b. Custom duties are not payable until commodities are processed through customs

AID/Washington and the Department of Defense officials advised us that GVN had established severe rental rates for transit sheds, effective January 1, 1967, which should encourage the movement of cargo. Berth rates were also increased, which should stimulate a better rate of discharge. The higher tariffs resulted largely from the efforts of United States Army advisors.

These officials held out small hope for any short-term improvement in the barge situation, despite the construction of additional warehouse facilities and the taking of other measures. At the conclusion of our field work in December 1966, we were advised that barge rentals also would be increased by GVN to make this practice less favorable to importers. Our subsequent follow-up in late May 1967 indicated that this had not been done nor have we learned of any immediate GVN plans to do so.

- 4 GVN has not enforced a decree which provides that any commodities not cleared through customs 30 days after discharge will be confiscated and sold at auction. For example, between March 31, 1965, and August 30, 1966, only about \$58,700 in CIP goods had been confiscated. There were no indications of confiscations prior to that date.

In April 1967, AID/Washington advised us that GVN was still not enforcing the decree consistently

AID/Washington advised us that the number of suspensions of importers that fail to remove their cargoes in a timely manner had increased in frequency. For example, between December 1, 1966, and January 27, 1967, 98 importers were suspended. AID/Washington stated that suspension was far less harsh than confiscation since importers could be and were reinstated after they cleared their goods from the port

5. The high level of GVN-financed licensing in late fiscal year 1966 and in fiscal year 1967. Because a large part of these imports are from Far East countries, delivery times are shorter. Much of these imports arrived between July 1966 and February 1967
6. Basic shortcomings in cargo discharge and handling methods as well as shortages of cargo-handling equipment and poor equipment maintenance
7. Congested traffic conditions on access roads to and from the port area, poor condition of such roads, and a shortage of trucks

One of the major steps undertaken to relieve pressure on the port of Saigon is the construction of added port facilities at various coastal ports in Viet Nam. Further, a high priority has been given to the construction of the Newport complex several miles upstream from Saigon. The first deep draft berth became operational in January 1967. AID/Washington advised us that three berths would be returned to civilian control soon and that, as of April 1967, one berth was being used primarily for offloading commercial cargo.

Inventory accounting system

At the conclusion of our field work, establishment of a fully automated system was underway to account for incoming CIP cargoes. As currently visualized by management, the system will ultimately yield data on the complete pipeline and delivery status of program commodities--from the date of license application to the consignee's pickup of the merchandise.

The system is currently providing information, by commodity category and vessel, as to the date AID/Washington pays for program-financed commodities, the date the vessel transporting the commodities left Viet Nam, and the date the consignee clears the commodities through GVN customs. This information permits USAID personnel to approximate the delivery status of program-financed commodities and to estimate the length of time that goods are awaiting consignee pickup in the port following discharge from vessels.

Management officials advised us that they are now in a position to identify instances wherein importers either are not picking up their goods in a timely manner or have abandoned the goods. Moreover, they advised us that by making available information as to when consignees pick up cargoes, the ability of the Audit Branch to perform timely end-use checks is potentially enhanced. This type of information had not generally been available previously.

Financial management officials further advised us of their intent to continue refining the system. For example, in early December 1966, they started accumulating information regarding the issuance of import licenses, which would be integrated with that described above. Information from other sources was also being used in conjunction with that provided by the system. For example, data

regarding the issuance of import licenses had been obtained from the National Bank of Viet Nam since July 1966

In our opinion, much still remains to be done to make this system fully effective. For example, we believe that data should be available regarding the precise location of inventories in the port area in order to pinpoint the time and place of any loss, damage, and/or diversion of program-financed cargo. Also, the system does not permit a definitive identification of specific commodities but rather yields information as to broad commodity classes, e.g. "pharmaceuticals" rather than "chloramphenicol."

This lack of specific commodity identification militates against a timely identification of pipeline, accountability, and other necessary management-type data. AID/Washington officials advised us in March 1967 that they were then addressing themselves to this problem.

Management responsibility

The following United States organizational entities, both within and without USAID, are either directly or indirectly concerned with port activities.

1. Commercial Import Division, USAID Office of the Assistant Director for Commerce, Industry, and Trade

Concomitant with the mid-1966 personnel augmentation of the Division, one of their men assumed responsibility relative to CIP shipping matters, including

- a. Consolidation of shipments.
- b. Compliance with, and waiver of, the legislative requirement that at least 50 percent of commodities financed by the United States be transported aboard United States-flag vessels.¹

¹Cargo Preference Act of 1936 (46 U.S.C. 1241 (b)).

- c. Demurrage.
- d. Discharge of vessels and clearance of goods from transit sheds at the port
- e. Liaison with other USAID offices concerned with port operations.
- f. Liaison with the Army. (See item 2 below.)

2. The United States Army

In early October 1966, a contingent of United States Army personnel arrived in Saigon to actively advise the Director General of Ports, Viet Nam, on efficient methods required to improve Saigon port operations pertaining to all commercial cargo.

As part of its mission, this contingent will actively advise GVN port personnel as to the following matters affecting the program.

- a. Port security.
- b. Control and maintenance of cargo-handling equipment.
- c. Repair and rehabilitation of port facilities.
- d. Increasing the efficiency of cargo flow through the port.
- e. Methods for efficient movement of vessels within the port.
- f. More efficient stevedoring techniques in discharging and handling cargoes
- g. Reducing the backlog of cargo on river barges
- h. Effective utilization of cargo storage space.
- i. Establishment of an effective cargo documentation system.

3. Commodity Arrival Section, Audit Branch, Office of the Assistant Director for Financial Management

This section was established in June 1966 for the purpose of establishing the automated inventory accounting system, more fully discussed on pages 53 to 54. In addition, this section has the sole responsibility for keeping management officials advised regarding the status of abandoned (i.e., distressed) program-financed cargo. Three United States auditors, seven local accountants, one key-punch operator, and one administrative clerk were assigned to this section at the time of our survey.

4. Port Management Branch, USAID Office of the Assistant Director for Logistics

This unit is principally interested in the movement of all AID-financed cargoes through the Saigon port, including those financed under CIP. Moreover, the Branch is also engaged in advising various GVN agencies on ways to improve port operations generally.

As an outgrowth of this activity, various reports reflecting overall port operations are prepared by the Branch. Branch officials attend daily meetings with the GVN's port harbor master where priorities are established regarding the discharge of cargo from vessels in the harbor. As related to us by Branch officials, priorities are established by the harbor master, an employee of the Saigon Port Authority, after considering the urgings of Branch representatives, local agents of commercial shipping lines (which transport both CIP and other commercial cargo), and United States Army representatives.

PROGRAM SURVEILLANCE

A number of organizations based both in Viet Nam and in Washington exercise surveillance over commercial import program activities. These include

1. USAID's Audit Branch which examines into the program in its normal internal review process.
2. Inspection and Investigation Staff in Saigon is part of AID's worldwide Inspection and Investigation Staff, formerly known as the Management Inspection Staff. This is an investigative organization responsible for the personal integrity of AID employees and for the investigation of specific irregularities involving possible violation of Federal statutes and similar matters relating to AID-financed transactions.
3. Office of Special Projects was created in March 1966 to perform reviews and develop programs specifically directed toward denying resources to the Viet Cong. Special emphasis was to be placed upon CIP commodities. The activities of this Office are coordinated with those of the Special Assistant for Commodity Analysis in AID/Washington, its counterpart organization.
4. Customs Advisory Team was established at USAID in March 1966. The principal mission assigned to this unit is the examination of CIP commodities to determine whether they conform to specified quantity, standards, and value. A secondary function is to advise appropriate GVN offices on institutional development and on other matters related to customs administration.
5. AID/Washington Internal Audit Staff which is part of the Office of the Controller and makes periodic audit-type reviews of overall USAID activities.
6. Financial Review Division also part of AID/Washington's Office of the Controller, performs a postaudit in Washington of CIP transactions.
7. Inspector General of Foreign Assistance, Department of State has statutory responsibilities under subsection 624(d) of the Foreign Assistance Act of 1961, as amended,

for reviewing the effectiveness of United States economic and military assistance programs and Peace Corps and Public Law 480 activities.

In May 1967 we reported to the Congress on the status of management audits and surveillance over CIP, as well as over other United States programs, in Viet Nam. (Review of Audit and Inspection Programs Conducted by United States Agencies in Viet Nam during 1966, B-159451, May 4, 1967.) Excerpts from this report dealing with the CIP are presented in appendix VIII

We found, in general, that additional audit staff resources had been applied by USAID's Audit Branch and that there had been an increase in the number of substantive audits after a report which we issued in July 1966. For fiscal year 1967, the Audit Branch planned to perform 63 audits of the CIP with an assigned value of \$148.8 million.

Need for an improved management reporting system
regarding audit coverage of the CIP

There are a number of important management control stages in the implementation of the CIP which lend themselves to audit coverage. Some of the more significant matters, among those requiring consideration at the various stages, are as follows

1. The dollar value of specific types of commodities authorized for import by AID's procurement authorizations (PA's) in the period under review
2. Import licenses issued under these PA's, including the eligibility for licenses of the importers.
3. The arrival status in Viet Nam of the commodities for which import licenses were granted.
4. The extent to which importers have picked up their goods

5. The importers' disposition of the goods and, where feasible, the disposition of the goods by subsequent purchasers or users in the chain of distribution.
6. The total dollar value of audit coverage reported to the Agency and reported by the Agency to other interested parties.

We noted that the end use of commodities audit phase (item 5 above) generally is designed to determine if the importer can account for the commodities financed under the program and that the Audit Branch's standard operating procedures provide that commodities also be checked beyond the importer if possible. Audit checks generally are not so extended, however, since circumstances inhibit extensive end use in many cases because of

1. The multiplicity of parties in the chain of distribution from the original importer to the ultimate user, coupled with the fact that AID regulations require that only the original importer maintain accountability records.
2. Changes from the original form of many commodities imported through subsequent manufacture and processing.

For a sampling of the manner in which audit coverage was being afforded at the above-listed control points, we inquired into two of the more significant CIP audits which the Mission Audit Staff had undertaken at the time of our field work. The first of these audits, of tinplate, had been completed and the audit coverage had been reported to AID/Washington at nearly \$9 million, the second audit, of truck tires and tubes, was in progress.

With reference to tinplate, our review disclosed that the auditors found that \$8.8 million worth of import licenses had been issued to 108 importers, that the auditors had visited 12 importers to whom import licenses totaling a value of \$4,982,899 had been issued, that \$3,362,585 worth of the licenses of the 12 importers

§
were subjected to a relatively detailed analysis to determine such details of the transactions as the importers' requirements, quantity ordered, and delivery status, and that tinplate valued at \$1,709,321 had been received by the 12 importers.

The auditors also observed \$48,169 worth of the tinplate which was at the port and, upon reviewing the records of 8 relatively small importers included in the 12, found that an additional \$31,172 worth had been sold and \$9,332 worth was in inventory. No further verification procedures were performed. The remaining \$1,620,648 worth of tinplate was imported by the other 4 importers visited who were the major users of tinplate in Viet Nam. The final disposition of this tinplate was not determined from the accountability records of the importers nor were observation or physical counts performed. According to the auditor in charge, most of this tinplate was at insecure locations at the time of the audit.

The dollar amount of audit coverage at each of the first three management control points, i.e., through the verification of the tinplate deliveries to importers, appears to be reasonable in relation to the nearly \$5 million value of imports by the 12 importers. It will be noted, however, that the audit coverage was limited to 12 out of the 108 importers and included only eight of the smaller importers and that verification of sales and inventories was relatively negligible.

While reductions in the extent of detailed audit coverage at the successive stages of the import cycle are appropriate, the coverage nevertheless must, in our opinion, be such as to be fairly representative at each stage of the scope of transactions said to be covered. To meet this criterion and permit reporting audit coverage for the entire program segment of \$8.8 million, would require,

we believe, that (a) more than eight of the small importers be tested and (b) more extensive testing be made of the disposition of tinplate by the four major importers and a representative number of smaller importers. If end-use verification was impracticable because of security reasons, this does not, in our opinion, warrant the reporting of coverage as greater than that actually accomplished.

AID/Washington advised us of their view that the selection for testing at each successive stage in the commodity import program cycle need not be representative of conditions throughout the broadest program segment. Rather, they said, tests varied depending on the auditors findings with respect to conditions encountered. AID/Washington also advised us that the tinplate audit was atypical, but they did not reduce the reported dollar value of audit coverage for this particular audit. We believe that the extent to which audit tests in late stages of audits are adjusted in the light of conditions disclosed in earlier audit stages must conform to the principle that at each stage the coverage should be fairly indicative, as to that stage, of the total spectrum supposedly covered.

* As indicated above, we also inquired into an examination of the end use of truck tires and tubes, which was in progress at the time of our survey. This examination had been assigned a value of \$8 million--the cost of these commodities that was estimated, at the time this value was assigned, to have been authorized for program financing during fiscal years 1964, 1965, and 1966.

The audit plan called for an initial test check of \$1,760,317 of the \$4.4 million worth of these commodities authorized for financing during fiscal year 1965 and for no review of transactions for fiscal years 1964 or 1966. Subsequent followup by our staff

disclosed that end-use verification was performed of commodities valued at \$186,504 imported during fiscal year 1965. We also noted that, after we brought this case to the attention of USAID and AID/Washington, the assigned value of this examination was reduced to the \$4.4 million authorized for importation during 1965, the period from which the auditor drew his limited sample.

We believe that coverage on this audit is still overstated since the \$186,504 in commodities verified represented a sample drawn from a \$1.8 million segment of transactions and there was no indication that that segment and the sample taken from it were representative of the remaining \$2.6 million in commodities authorized for financing during fiscal year 1965.

Information concerning the cumulative dollar value of audit coverage, including that involved in the two individual audits described above, is maintained and reported monthly by the Audit Branch for the purpose of keeping top USAID and AID/Washington officials and other interested parties apprised to the extent of audit surveillance exercised over programs under the USAID's administrative control. Also, by relating the extent of audit coverage to the nature and magnitude of deficiencies disclosed during the course of such examinations, it is possible to broadly and roughly evaluate the manner in which a program is operating.

We believe that, to the extent audit coverage is overstated as in the two cases described above, such overstatement will misinform management and other interested parties as to both the actual surveillance exercised and the effectiveness of the program. While the audit techniques employed may, in themselves, be acceptable in some cases, we believe that limitations on their representative character should be clearly disclosed in reporting in terms of total dollar coverage to preclude misleading persons unfamiliar

with the techniques employed. Moreover, to the extent that methods similar to those described above may have been used in other cases in assigning audit coverage values for reporting purposes, the validity of the overall coverage reported for the commercial import program is questionable.

Conclusion

We believe that substantial improvements have been made in the audit coverage of the commercial import program for Viet Nam since the Committee on Government Operations of the House of Representatives reported that audit coverage of that program appeared low measured either in terms of the number of reports or the dollar value of audit coverage. The Committee's report, based on a study made by its Foreign Operations and Government Information Subcommittee, noted that "only four end use audits of CIP commodities valued at about \$8 million were in process in January 1966." We also feel, however, that, if audit coverage is reported and audit values are assigned extensively in other areas as they were in the two cases discussed above, the overall surveillance of the program could be substantially overstated.

Our primary concern is with the consequences that such a practice would have in terms of both the reliance placed by top AID management upon data so reported in evaluating the effectiveness of the program and the extent to which such data may be cited by AID top management in reports to other Government officials and agencies. We also are concerned that such a reporting practice, by emphasizing a statistical demonstration of broad audit coverage, may tend to induce qualitative shortcomings in the performance of the audits themselves. While the cause-effect relationship between present reporting practices and qualitative shortcomings in the

audit is not demonstrable, we believe it is significant to quote the results of a report by the Inspector General for Foreign Assistance, Department of State to the Administrator, AID, that

"The Audit Branch of the Controller's Office has been active in issuing a number of audit reports in recent months, however, we were not overly impressed by the quality of these reports.

"*** The value of audit reports lies in the type of information made available to those responsible for program administration rather than in the mere number of reports."

Recommendation

We recommend that top AID/Washington and USAID management adopt an audit coverage reporting system which reflects the varying degrees of audit coverage accorded at each management control stage of the commercial import program. Such a system should include, at a minimum, a stratification of the coverage accorded at each principal review stage.

Using the two audits cited above, such a system might well yield the following type of cumulative data regarding audit coverage.

<u>Stage</u>	<u>Total</u>	<u>Tinplate</u>	<u>Truck tires and tubes</u>
Authorized imports	13,200,000	8,800,000	4,400,000
Licenses subjected to testing	9,382,899	4,982,899	4,400,000
Licenses actually tested	5,022,902	3,262,585	1,760,317
Commodities subjected to testing	1,848,990	88,673	1,760,317
Commodities actually tested	275,177	88,673	186,504

APPENDIXES

PRINCIPAL MANAGEMENT OFFICIALS
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE		
Dean Rusk	Jan. 1961	Present
UNDER SECRETARY OF STATE		
George W. Ball	Nov. 1961	Sept 1966
Nicholas D. Katzenbach	Sept. 1966	Present
UNITED STATES AMBASSADOR TO THE REPUBLIC OF VIET NAM		
Henry Cabot Lodge	Aug. 1965	Apr 1967
Ellsworth T Bunker	Apr 1967	Present
UNITED STATES DEPUTY AMBASSADOR TO THE RE- PUBLIC OF VIEW NAM		
William J Porter	Sept 1965	Apr 1967
Eugene M Locke	Apr. 1967	Present
<u>AGENCY FOR INTERNATIONAL DEVELOPMENT</u>		
ADMINISTRATOR		
David S. Bell	Dec 1962	Aug 1966
William S. Gaud	Aug 1966	Present
DEPUTY ADMINISTRATOR		
William S Gaud	Feb 1964	Aug. 1966
Vacant	Aug 1966	May 1967
Rutherford M Poats	May 1967	Present
ASSISTANT ADMINISTRATOR, VIET NAM BUREAU (note a)		
Walter G Stoneman (acting)	May 1967	June 1967
James P. Grant	June 1967	Present

PRINCIPAL MANAGEMENT OFFICIALS
RESPONSIBLE FOR THE ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
<u>AGENCY FOR INTERNATIONAL DEVELOPMENT (continued)</u>			
ASSISTANT ADMINISIRATOR, FAR EAST BUREAU			
Rutherford M Poats	Apr 1964	May 1967	
CONTROLLER			
Charles F Flinner	Oct 1964	Present	
DIRECTOR, MISSION TO THE REPUBLIC OF VIET NAM			
Charles A Mann	Aug 1965	Aug 1966	
Donald G MacDonald	Aug 1966	Present	

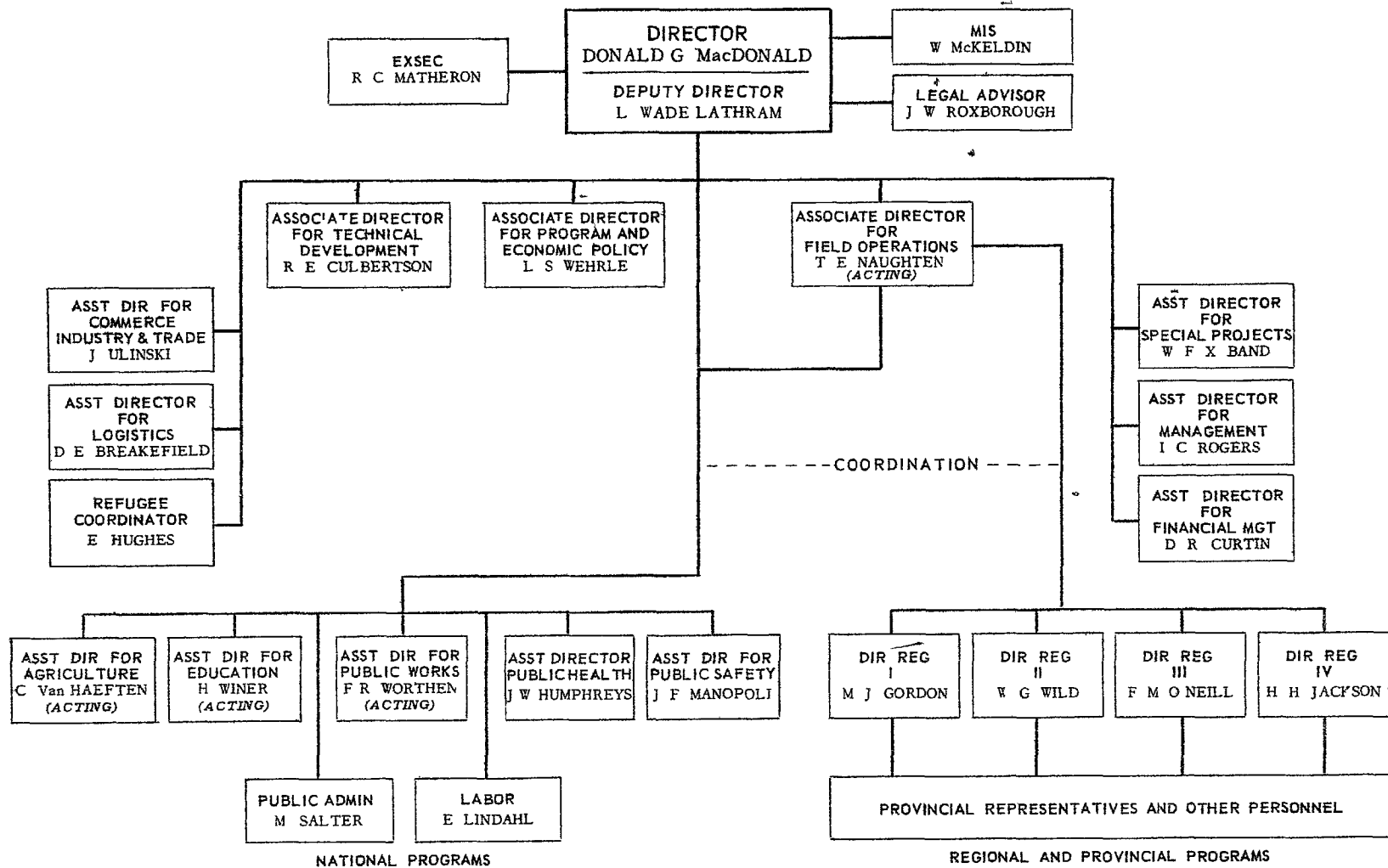
DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE			
Robert S. McNamara	Jan 1961	Present	
SECRETARY OF THE ARMY			
Stanley R Resor	July 1965	Present	
COMMANDER, MILITARY ASSISTANCE COMMAND, VIET NAM.			
Gen William C Westmoreland	Aug. 1964	Present	

^aEffective May 21, 1967, a separate bureau was formed within AID to administer United States economic assistant programs in Viet Nam. Prior thereto, AID's Far East Bureau administered the Viet Nam programs

USAID VIET NAM

AS OF NOVEMBER 1, 1966



APPENDIX III

ECONOMIC ASSISTANCE TO VIET NAM

FISCAL YEARS 1954 THROUGH 1966

AS OF JUNE 30, 1966

OBLIGATIONS

	<u>Fiscal year</u>				
	<u>Total</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1954-63</u>
	<u>(millions)</u>				
Commercial Import Program	\$1,990 4	\$397 0	\$149 3	\$111 6	\$1,332 5
Pacification Program	212 7	97 9	45 4	36.9	32 5
Public Law 480 and similar agricultural programs	522 4	108 8	57 5	68 3	287 8
Project Assistance	350 4	76.8	21 4	10 8	241 4
Other	<u>24 7</u>	<u>4 3</u>	<u>1.5</u>	<u>1 2</u>	<u>17 7</u>
Total	<u>\$3,100 6</u>	<u>684 8</u>	<u>275 1</u>	<u>228 8</u>	<u>1,911 9</u>

EXPENDITURES

Commercial Import Program	\$1,676 2	\$206 8	\$110 9	\$103 8	\$1,254 7
Pacification Program	110.7	38 4	43 8	17 8	10 7
Public Law 480 and similar agricultural programs	453 6	71 8	65 5	59 0	257 3
Project Assistance	279 6	33 3	30 5	35 1	180 7
Other	<u>23 8</u>	<u>4 5</u>	<u>1 6</u>	<u>4 1</u>	<u>13 6</u>
Total	<u>\$2,543 9</u>	<u>\$354 8</u>	<u>\$252 3</u>	<u>\$219 8</u>	<u>\$1 717 0</u>

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

APR 26 1967

Mr. Oye V Stovall
Director
International Division
U. S. General Accounting Office
Washington, D. C 20548

Dear Mr Stovall,

We have reviewed the General Accounting Office draft report on "Survey of the Management and Operation of the Commercial Import Program for Vietnam." I am pleased to submit our attached comments on the draft report for your consideration.

We believe that the report, with minor modifications, will constitute a balanced and accurate account of the Commercial Import Program (CIP) in Vietnam. Given the nature of the controversy that has centered on this particular program, an objective report to the Congress and the public is long overdue

[See GAO note]

CIP programming and management policy has been thoroughly reviewed by top management in Washington and Saigon. Nevertheless, two extreme and opposing schools of thought on what CIP policy should be are still occasionally encountered among those directly responsible for certain functional areas at the staff level. We believe the authors of the draft report, in an effort to simplify a complex subject, have inadvertently described one of the extreme views and thereby misrepresented the policy established by top management. This is dealt with in greater detail in the attached comments.

Your staff completed field work in Vietnam in December 1966. Consequently, you are not familiar with and do not report the remarkable improvements which have been made in the port of Saigon during the past few months.

GAO note: The deleted comments are not pertinent to the matters discussed in this report.

Mr Oye V Stovall, Director

We understand your representative is now in Vietnam to update the sections of the draft report which deal with port operations, so we have confined our comments to general observations

We find ourselves in fundamental disagreement with the General Accounting Office concept of proper audit sampling and reporting procedures This disagreement is treated in detail in our comments

Let me again express the Agency's appreciation for the objective and professional manner in which the General Accounting Office accomplished this survey on management and operation of the CIP Vietnam is not always a pleasant place in which to live and work, we have no reason to think conditions are less frustrating or problems less complex for your staff members than they are for military and civilian personnel assigned there permanently.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "William O. Hall". The signature is fluid and cursive, with the first name "William" being the most prominent part.

William O Hall

Assistant Administrator for Administration

Attachment a/s

AGENCY FOR INTERNATIONAL DEVELOPMENT
COMMENTS ON THE
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT ENTITLED
"SURVEY OF THE MANAGEMENT AND OPERATION OF
THE COMMERCIAL IMPORT PROGRAM FOR VIETNAM"

Set forth below are comments and suggestions which are keyed to the draft report by page numbers. Pertinent parts are quoted from the report.

Page 9-10

"A I D and USAID do not, in themselves, formulate the size or commodity content of the Commercial Import Program for Vietnam. Rather, sufficient dollar funds are provided to pay for commodities needed to meet the market demand, as determined by the Vietnamese import community, for any commodities eligible for A I D financing."

A I D believes that the GAO has over-simplified the complex CIP policy developed by the Agency, unfortunately, such over-simplification is subject to misinterpretation by those not familiar with the intricate--and politically sensitive--management system designed and implemented during the course of the past year.

In normal circumstances, a commodity import program supplements import financing available from the host country's own foreign exchange resources. The operating principle for a normal commodity import program is that, within the limits of what A I D is willing and authorized to finance, almost exclusive reliance is placed upon market determination of requirements and upon normal commercial practices for procurement, transportation, and distribution of A I D -financed commodities.

Special circumstances have caused extensive reconsideration of this operating principle in the case of Vietnam. During the last year and a half, the CIP was expanded so rapidly that for a time A I D management capability was unable to keep pace. The GVN administrative machinery showed itself to be incapable of ensuring adherence to either Vietnamese or A I D regulations. Tremendous inflationary pressures on an imperfect and somewhat inexperienced market sometimes resulted in inadequate requirements determination, which in turn created opportunities for various irregularities documented elsewhere in the GAO's report.

In an economy as uncertain and dynamic as that of Vietnam, quantitative requirements are not to be found in the abstract. Requirements are what will sell--and what sold last month or last year is only a partial indicator of what will sell in the future. There has been a scarcity of commercial information and an inability to foresee what commodities would be wanted in the rapidly fluctuating conditions of wartime Vietnam. Nevertheless, A I D believes no one can make these judgments as well as the Vietnamese businessman, whose livelihood depends on knowing the temper of the market and having the entrepreneurial capacity to risk his own money on that knowledge.

While experience teaches the necessity to rely on the market, experience also dictates the need for strong management and regulation to guard against excesses and irregularities. In recent months, A.I.D. has introduced a system of continuous surveillance and "constructive interference" in the market. The text of the GAO Report describes many ways in which the principle of constructive interference is effected in the day-to-day operation of the program.

With respect to the commodity content of the program, A.I.D. and USAID are engaged in a continuous review of the types of commodities which will remain eligible for A.I.D. financing. A.I.D. has just completed a thorough review of the commodity content of the CIP, and, in keeping with the principle that import needs should be met first through the expenditure of GVN foreign exchange and residually through the expenditure of funds provided as a part of the U.S. foreign assistance program, our two governments have agreed to transfer a large number of important commodities from the CIP-eligible list to the GVN's own import program. Twenty major commodity categories are on this list, A.I.D. anticipates that expenditures for these commodities will total more than \$50 million in the last half of 1967.

Page 10-11

"The method currently used to estimate the size of the program is a simplified, and broadly applied, inflationary gap analysis which compares the aggregate of inflationary factors (monetary input) to the aggregate of counter-inflationary factors (monetary absorption). A.I.D. officials added, however, that they do not use the gap to estimate inflationary impact."

"The final sentence of this quotation should be deleted. Oversimplifying somewhat, gap analysis draws attention to two variables under our control: the level of spending and the level of imports. Because program needs are very demanding in Vietnam, it is difficult to cut spending, nevertheless, we have reduced spending from what it otherwise would have been. Spending plans in turn dictate the level of imports required to offset the inflationary impact of spending. A.I.D. has always assumed that if inflation gets too far out of hand, the U.S. and the GVN would cut-back on expenditures over which we have control, i.e., U.S. military, U.S. civil, and the GVN. On the other side of the equation, if imports were not absorbed at an acceptable rate -- which would result in a larger than anticipated gap and a more rapid rise in prices -- we would again have the possibility of cutting back on expenditures."

We use the gap as one estimate of overall monetary inflationary pressure, it is an imperfect measure because it does not take into account such things as changes in the level of domestic production of goods,

changes in the willingness of people to hold money as liquid assets, changes in the extent to which barter is used in payment for goods and services, etc. However, it is a useful measure because other means of measuring inflationary pressure are unavailable; national income statistics are impossible to estimate with any degree of reliability at the present time, whereas most of the inputs of monetary gap analysis are relatively easy to measure.

Gap analysis is a simplified statement of the proposition that a change in money supply determines changes in price. A.I.D./W and USAID have examined the historic relationship between the gap and prices, and find the relationship to be changing. It has usually been a fact in Vietnam, however, that change in prices has been proportionately less than change in money supply. As an example, in 1965 money supply rose 76 percent while during the same period retail prices in Saigon rose 40 percent.

[See GAO note on page 71]

[See GAO note on page 71]

Page 19

"At our request, USAID officials obtained from the GVN's Directorate of Commercial Aid historical and most recent information regarding over-all membership in the NC groups."

Our information does not differ in magnitude from that presented by the GAO, but we cannot confirm or agree to the statistical data. Many firms belong to more than one commodity group, some are registered with the Directorate of Commercial Aid (DCA) but not with the Directorate of Controlled Economy (DCE) and vice-versa, etc. Many of the new firms which are now permitted to operate in more than three commodity groups are old and established firms which have re-registered.

Page 19

"Previous group members are still, however, restricted to importing in accordance with their previous designations. To enhance prospects for complete importer competition, United States negotiators unsuccessfully attempted to remove this barrier also."

Since old Vietnamese firms can re-register with new names, we believe adequate provision has been made for participation by all firms which wish to import and can meet the financial requirements of the law.

Page 22

"USAID believe (d) that no additional fertilizer purchases would be necessary during fiscal year 1967."

USAID has just completed negotiations with the GVN leading to a change in the internal distribution system for fertilizer. Now that distribution arrangements have been made, A.I.D. is going forward with procurement of fertilizer for delivery in Vietnam in the June to September period. The schedule provided by the USAID calls for 170,000 M/T (80,000 M/T of urea under barter, cost about \$10 million, and 90,000 M/T of mixed fertilizer under GSA procurement, cost about \$13 million) to be procured in FY 1967.

In the past there were two separate fertilizer programs -- one funded under Counter-Insurgency and distributed by agricultural cooperatives, the other funded under the CIP and sold commercially. The new system provides for a single Vietnamese entity to manage importation and distribution. Even though procurement will be funded against the Counter-Insurgency program, all but about 20,000 M/T per year will be sold commercially through cooperatives, farmers' associations, and commercial enterprises.

[See GAO note on page 71]

r

* Page 24

"The use of MSTs calls for using the United States Army's local inland transportation system. This entails the use of a civilian contractor, without military drivers or guards, who is not contractually required to accept responsibility for losses incurred between the port and first destination, and could result in A I D. sustaining substantial losses "

Civilian contractor vehicles are used by the U.S. military only in those areas that are reasonably secure and when adequate management controls can be exercised. In all areas, the U.S. military currently secures USAID sponsored cargo in the same manner as military cargo. The following measures are being taken to provide security over such cargo:

- (1) Security cargo (e.g. ammunition, weapons, medical, mails, PX supplies, etc.) is escorted by military police patrols.
- (2) Palletized or boxed cargo is banded to the bed of the vehicle to add to security and safety of cargo.
- (3) Predesignated truck routes are established which facilitate the control of cargo shipment from the port to major destinations.

In order to assure against pilferage, USAID has in addition arranged for an independent inspection firm (Societe de Surveillance) to provide guard service for the transport of commodities between the vessel and the point of first destination.

[See GAO note on page 71]

Page 40-45

"PORT ACTIVITIES"

A general comment on the section of the report entitled "Port Activities" is in order. The statistical data on transportation presented in this section cannot be confirmed from data maintained by A.I.D. and used in reply to inquiries on the A.I.D. program in Vietnam. The reporting periods and classification system used by the GAO are not the same as those reported to A.I.D./W from Vietnam; as a result of agreements between A.I.D./W, DOD and the field activities, port operating statistics available to us are based exclusively on MACV reports. As an example of the type of discrepancies we have identified, official reports from MACV and from USAID on the amount of tonnage on barges have always been estimates and have always been well below tonnages cited by GAO. However, we do not wish to take issue with statistics used by the GAO inasmuch as they portray the general situation fairly accurately, even when the data differs from that available to A.I.D.

Page 42

"Barges on the Saigon River"

A.I.D. believes that the barge problem is extremely important and worthy of continuous attention, we think, however, that the age of cargo

in barges is a better index of the barge situation than the number of barges under load. Typical actions taken to alleviate the barge problem include

- (a) Improvements in the facilities of the Kinh Te Canal lighterage facility to increase its future discharge capacity from 600 to 1,000 short tons per week
- (b) Development of a 2,300 foot quay, and construction of seven warehouses on the Kinh Doi Canal. This facility will have the capacity to handle 2,500 short tons a week
- (c) Extensive warehouse construction in the Saigon area
- (d) A special ten-man task force dispatched from Washington on USAID's request is placing an emphasis on identification and discharge of aged cargo from the barges.

Despite these and other measures, A I D. anticipates that barges will continue to be used in large numbers in the immediate future. Warehouse space is at a premium, partly because of the needs of US military forces and partly because of recent increases of in-country commercial inventories. It should be recognized that because of their modest cost barges are traditionally used as floating warehouses in the Far East, many of the privately owned barges seen floating in Saigon River contain cargo which has already cleared Customs, inventories are held on barges -- just as they would be stored in warehouses on land -- until the owner decides to move his goods into the market place. It is a moot point whether such inventories should be viewed negatively, as contributors to port congestion, or positively, as safeguards against recurrent market shortages.

Page 42

"We noted also that commercial tonnage discharged through Saigon port had shown recent significant increases. Increased arrivals of commercial cargo had more than offset this improvement, however, the total cargo in and around transit sheds, on barges and aboard vessels had shown a marked increase."

The first sentence quoted is much more significant than the second, which in any case is no longer true in March, 1967. We understand GAO intends to update the data presented in this section of the report to reflect the remarkable improvements that have taken place in the most recent six month period.

There has been an increase in the amount of commercial cargo reaching Vietnam in the past several months. We believe that we are presently experiencing the heaviest load on the port, and that commercial tonnages will begin to drop in July or August--and possibly before then--as a result of decreased rates of import licensing which began in September 1966.

A cleared and clean port is not a goal in and of itself--an efficient port operation is a means to an end. In this case, the goal is to provide Vietnam with sufficient war material to permit the achievement of peace and political stability, and to furnish the economy of Vietnam with consumer goods and raw material in quantities sufficient to dampen inflation and stabilize prices. Consequently, the most important single statistic applicable to the port of Saigon is the quantity of civil and military cargo moved through it. In our view, the GAO report places too much emphasis on technical operating problems which occur within the walls which surround the port, and not enough emphasis on the overall success of port operations as measured by port through-put.

Page 45

"At the conclusion of our field work in December 1966 Army advisors had assisted the GVN in devising a more realistic warehouse tariff, stevedore barge rentals were also reportedly increased in order to make extended storage thereon less favorable to importers."

The new Port Tariff became effective 1 January 1967. More severe rates are in effect for transit sheds which should encourage movement of cargo. Also, berth rates are higher which should stimulate a better rate of discharge. Simplified customs procedures are in effect, they will be further refined to include customs clearance from barge manifests.

Page 45

"It is to the advantage of Vietnamese importers to leave commercial import program cargo aboard ocean vessels until such time as they can immediately resell them, since the United States pays demurrage charges and finances ocean freight costs which include the congestion surcharge."

The congestion surcharge financed by A I D in dollars is payable by the importer in piasters, accordingly, it is in the long term interest of the importer to cooperate in reducing vessel turn-around time, which will eventually result in a reduced surcharge. Even if the importer preferred leaving cargo on board vessels rather than paying barge or warehouse rentals, he would not have that option, steamship agents supervise the unloading of berth term vessels without reference to the wishes of individual consignees.

Demurrage for voyage-chartered vessels is another matter. Demurrage on CIP cargoes is normally charged to the account of the consignee, whether he is a commercial entity or an agency of the GVN. In the past there has been controversy on the matter where rice cargo was concerned, but USAID has obtained a commitment from the GVN to pay all past and future demurrage costs for rice.

The only demurrage costs for which A.I.D. is responsible are those incurred in barter transactions when USAID is the consignee. Cement and fertilizer are the two principal commodities imported in this fashion.

In the future, fertilizer will be moved through the port expeditiously, since there will be only one official entity charged with the responsibility for importing fertilizer, it should be possible to pass demurrage charges along to that importer. A.I.D. and USAID are currently engaged in finalizing the new fertilizer arrangements.

Following the expiration of outstanding barter cement contracts, A.I.D. will no longer finance cement under the CIP. Consequently, future transportation arrangements for cement will be made and financed by Vietnamese entities.

Page 45

"The GVN has not enforced a decree which provides that any commodities not cleared through customs 30 days after discharge will be confiscated and sold at auction. For example, between March 31, 1965, and August 30, 1966, about \$63,700 in commercial import program goods had been confiscated. There were no indications of confiscations prior to that date. A new decree has been proposed by the United States Army which, if enforced, will hopefully correct this situation. It was still under consideration by the GVN at the conclusion of our survey."

GVN is still not enforcing the confiscation decree consistently. Whether or not a rigid policy of confiscation would assist us in our goal of developing a responsible and responsive business community is questionable. Since the primary reason for most delays in accepting delivery can be attributed to a temporary lack of markets, it is doubtful that a second importer could be found who could be more successful at finding buyers for goods purchased at government-sponsored auctions. Having confiscated cargoes already in abundant supply, the GVN--with little commercial expertise--would face the same marketing problems as the original importer. The GVN would probably have to sell at much less than cost to new buyers, the new buyers would thereby gain opportunities to make large windfall profits, which might give rise to a suspicion of corruption.

Although confiscation has not been enforced, suspension of importers who fail to remove their cargoes from the port within ten days has increased.

in frequency In the 60 day period from December 1, 1966 to January 27, 1967, 98 importers were suspended Suspension is far less draconian than confiscation, since importers can be and are reinstated after they have cleared their goods from the port

Page 45

" .A high priority has been given to the construction of the Newport complex several miles upstream from Saigon, and it is anticipated that it will be at least partially operational in early 1967 This will permit the diversion of some military cargoes now offloaded in Saigon, thus freeing additional areas of the port for commercial operations "

The first deep draft berth at Newport became operational--ahead of schedule--on 28 January 1967 It is anticipated that three berths will be returned to civilian control soon At present, one of them is being used primarily by the commercial sector and only occasionally are ships with military cargo berthed there MACV reports that the second can be returned to commercial use in April 1967, after a second deep draft berth is available at Newport MACV expects that the third berth can be released by September 1967, when Quay 4 at Newport is finished, this berth will not be released if there is a significant increase in USAID sponsored cargo related to the Counter-Insurgency program or an additional build up of military forces

Page 51. Audit Reports

Revised procedures and practices to expedite issuance of Audit Reports have increased production from three reports issued during the first 9 months of FY 1966 to 50 reports issued during the first 8 months of FY 1967.

Pages 52-56

" . It is our opinion that the Audit Branch's manner of reporting its dollar value of audit coverage may mislead persons not intimately familiar with its reporting practices." (Top of page 53)

"Where several control points are involved in the audits, adequate coverage of the complete program segment requires that the selection at the first and each succeeding point be representative of conditions throughout the entire program segment both as to the values tested and as to the complete spectrum of the segment " (Bottom of page 53)

"Moreover, it seems to us that the Branch is not always adhering to the principle that the selection for testing at each successive control point be representative of conditions throughout the program segment, resulting in successively diminishing coverage as examinations progress " (Top of page 54)

The passages quoted above seem to ignore the basic principle of selective testing, i e , that the extent of audit coverage (verification of individual transactions) will be determined by the conditions encountered relative to each control point. There is not necessarily a correlation between the adequacy of control procedures, and efficiency of operations, within the various functional areas of a given program segment. For this reason, we do not agree with the GAO's stated principle that the selection for testing at each successive control point will be representative of conditions throughout the program segment. For example one may find (in the POL import program segment) that the control procedures are good with respect to licensing and customs clearance, but are poor with respect to end-use. In such cases the audit coverage, both as to dollar value and methods employed, of the end-use function would be far greater than it would be in the other functional areas named. Hence, in a program segment involving five successive control points the extent of audit coverage may vary considerably between these points. Such a variance may be on a fluctuating basis, or could possibly be on an increasingly diminishing basis, depending on the auditor's findings with respect to conditions encountered at each control point.

The CIP procurement distribution cycle in Vietnam typically simulates a pyramid with a limited number of importers at the summit and an ever widening number of wholesalers and retailers and end-users at the lower levels. The identity of the importing community members at the various levels can be determined only at the next higher level in the distribution chain. While the sampling at the lower levels may numerically well exceed those at the higher levels of the pyramid, the dollar value of the sampling at the lower levels, under normal conditions, is necessarily decreased. We believe that the sampling at the end-use level in Vietnam, expressed in terms of dollar value coverage, must necessarily be less than the sampling at the licensing level. In terms of the number of transactions reviewed, the sampling at the end-use level can and usually does exceed the sampling at the licensing level.

Page 54

"In reporting the value of audit coverage, however, the Branch generally assigns a value based on the overall value of the program segment, e.g., commodity, under review, rather than in terms of the coverage of the particular control points accorded selective testing."

With the exception of the one specific audit of tinplate cited by the GAO (which is not typical), we disagree with the criticism of Audit Branch procedures for reporting the value of audit coverage. The theory of reporting apparently advocated by the GAO is contrary to accepted practice generally within the profession. Agency policy is to select for audit an identifiable program segment which then becomes the audit unit or element. Through professional techniques and methodology the auditor tests to the extent deemed necessary the procedures relating to each control point. His tests are expanded or contracted at each point depending on his findings. This results in assurance that control procedures are reasonably effective in pin-pointing deficiencies in order that operating officials may take corrective action.

When review is completed for the entire program segment, there has been coverage at each control point to the degree deemed necessary in the auditor's judgment. Opinions relating to the total segment are expressed and are reported as audit coverage. It would be highly unrealistic--and in contradiction to accepted professional practice--to follow that which GAO seems to be advocating, i.e., to report the amount of selective testing at each control point. To follow that principle could be very misleading in reporting to management. For example, assume that there are five control points and that the extent of coverage successively at each point is 50 percent, 40 percent, 30 percent, 20 percent, and 10 percent of the total program segment, or a total of 150 percent of the dollar value of the unit selected for audit. If the latter is \$1 million, the reported coverage would be \$1.5 million, or \$.5 million more than the amount included in the program segment.

[See GAO note on page 71]

[Pages 14, 15, and 16, of these comments have been deleted because they are not pertinent to matters discussed in this report]



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301

INSTALLATIONS AND LOGISTICS
TP

8 APR 67

Mr Oye V Stovall
Director
International Division
United States General
Accounting Office
Washington, D C 20548

Dear Mr Stovall

This refers to your letter of February 27, 1967, to the Secretary of Defense which forwarded copies of your draft report to the Congress titled, "Survey of the Management and Operation of the Commercial Import Program for Vietnam" (OSD Case # 2566)

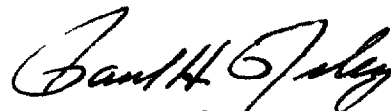
The discussion on pages 7-12 is generally fair and accurate. While there have been many estimates of the magnitude of the various inflationary and deflationary factors, the figures shown in this draft report are within the range of other estimates made during the past three or four months. However, there is a slight mis-emphasis on page 11, where the impression is given that inflationary gap and spending levels were set arbitrarily and a required level of imports was then generated. Actually, the spending levels proposed for CY 1967 were to some extent tailored to the level of imports which it was thought could be gotten through the crowded Vietnamese ports. The level of imports was not just a residual number calculated after all other programs were determined. (The general spirit of this comment has been communicated to AID and they have no objections.)

The USAID reservations to the use of MSTs (page 24) were apparently expressed before any shipments were handled under the DoD/AID agreement. Recent discussions with AID/Washington representatives revealed that as a result of actual experience under this agreement they have no reservations concerning the use of MSTs or the U S Army's local transportation system in Vietnam.

This reply has been made prior to the receipt of comments from the Commander in Chief, Pacific. When he provides additional information, you will be advised.

We appreciate this opportunity to comment on your report.

Sincerely,



PAUL H. RILEY
Deputy Assistant Secretary of Defense
(Supply and Services)



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301

INSTALLATIONS AND LOGISTICS

TP

27 APR 67

Mr. Oye V Stovall
Director
International Division
United States General
Accounting Office
Washington, D C 20548

Dear Mr Stovall

This supplements our reply of April 8, 1967, to your letter of February 27, 1967, which forwarded copies of the draft report titled "Survey of the Management and Operation of the Commercial Import Program for Vietnam" (OSD Case # 2566)

The use of civilian contractor vehicles to provide local inland transportation (page 24), is limited to those areas that are reasonably secure and when adequate management controls can be exercised. In all areas, the U S military secures U S AID sponsored cargo in the same manner as military cargo and is taking the following measures to provide security for this cargo

a Security cargo (e g , ammunition, weapons, medical, mail, post exchange, etc ,) is escorted by military police patrols

b Palletized or boxed cargo is banded to the bed of the vehicle to add to the security and safety of the cargo

c Predesignated truck routes are established to facilitate the control of cargo shipment from ports to major destinations

Since warehouse space is at a premium, the number of barges under load on the Saigon River (paragraph 2, page 42) is not expected to decrease materially, even upon completion of the projected construction. It would therefore appear that the age of the cargo in barges, rather than the number of barges under load, would be a better index of the barge situation. New barge discharge sites now under construction will provide for increased cargo throughput with an attendant reduction in the age of the cargo. Also, USAID and the Military Assistance Command, Vietnam, are taking steps to encourage stevedores and the Vietnam port director to load more bulk cargo and less general cargo into barges, which will simplify the pickup of cargo

APPENDIX VI
Page 2

by importers

The following tabulations provide information for updating paragraph 3 on pages 42 - 43

Age of Cargo in Warehouses
(Commercial and CIP Combined)

<u>As of 3 March</u>	<u>Short Tons</u>	<u>Percentages</u>
1 - 30 days	13,533	69
31 - 60 days	4,672	24
61 - 90 days	623	3
91 - 120 days	398	2
over 120 days	334	2
Total	19,560	100

Commercial Ship Status

<u>As of 3 March</u>	<u>No</u>	<u>Short Tons</u>
In Port (Working)	18	57,022
Waiting	14	48,045
Holding	4	15,805
Total	36	120,872

With regard to warehouse tariffs and barge rentals (paragraph 3, pages 44 - 45), the new port tariff became effective January 1, 1967. The more severe rates now in effect for transit sheds and the higher berth rates should encourage faster movement of cargo. Also, simplified customs procedures have been placed in effect and are being further refined to provide for customs clearance from barge manifests.

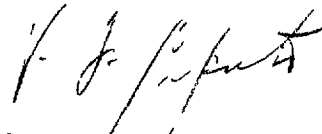
Continued training in cargo discharge, handling methods, and equipment maintenance is being conducted by advisory personnel and equipment shortages are being reduced to relieve pressure on the Saigon port resulting from the factors discussed in paragraph 7, page 45.

The first deep draft berth at Newport (paragraph 8, page 45) became operational, ahead of schedule, on January 28, 1967. It is anticipated that berths K8, K9, and K10 will be returned to civilian control. At present, K8 is being used by the commercial sector and only occasionally are ships with military cargo berthed there. We anticipate that K9 can be

returned to commercial use this month after a second deep draft berth is obtained at Newport. Also, we expect that Berth 10 will be released by September 1967 upon completion of Quay 4 at Newport if it is not needed for increased USAID sponsored cargo handled by the military and there is no significant additional buildup of military forces

Phase I of the Saigon Port improvement program (paragraph 2, pages 47 - 48) encompasses 25 projects in such areas as civic action, port administration, security, operations, and public works. Fifty percent of these projects have been completed and the remainder should be completed by September 1967. Upon completion of these Phase I projects the objective of developing an effective terminal operation will have been achieved. Phase II will include, but not be limited to, economic analysis, financial management, operations plans, engineering plans, administration, executive training, and promotional activities.

Sincerely,



Vincent F. Cruto
Director for Transportation
and Logistics

GENERAL SERVICES ADMINISTRATION



Washington 25, D C 20405

MAR 27 1967

Mr. Irvine M. Crawford
Assistant Director, Civil Accounting
and Auditing Division
General Accounting Office
GSA Building, Room G-44
Washington, D. C. 20405

Dear Mr. Crawford:

Reference is made to your letter of February 28, 1967, enclosing for our review copies of your draft report on a "Survey of the Management and Operation of the Commercial Import Program for Vietnam; Department of State, Agency for International Development, and Department of Defense."

While the entire report has been reviewed, special attention has been directed to those sections specifically related to the operations of the General Services Administration. Since the time the material for your draft report was prepared, there have been some significant developments in connection with specific commodities. For your information these actions are summarized on a commodity basis:

Galvanized Iron Sheet: After resolution of various specifications problems, award was made on February 3, 1967, at very favorable prices for 20,000 metric tons to be available for inspection by April 6. Of this quantity 4400 metric tons are at port and scheduled for loading via Military Sea Transport Service (MSTS) on March 22. It is anticipated that the balance will be within the contract terms.

Fertilizer: All material has now arrived at Saigon.

Newsprint: The first shipment of this material was made on January 17, the final shipment went forward on February 22, and the entire 4000 metric tons should have arrived by March 20, 1967.

A subsequent award was made as a result of competitive negotiation on February 21 covering 6000 metric tons. Two thousand metric tons are scheduled for shipment via MSTIS on March 28, with the balance available by April 24. This covers AID's estimated requirements through July 1967.

White Cement: Contrary to the report, this requirement was formally advertised and bids were opened on January 16, 1967. However, on March 16 AID cancelled the requirement and this purchase will not be made.

Tinplate: This material was shipped via MSTIS on January 16, 1967, and should have arrived at Saigon approximately by February 19. Bids were opened on March 15, 1967 for an additional requirement of 5007 metric tons and are now being evaluated.

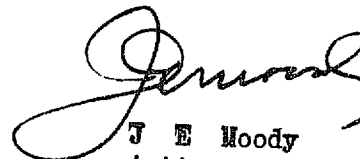
Jute Bags: No requirements for jute bags have been received.

Rice: No requirements for rice have been received.

Short lead times and specification and funding problems still present difficulties with respect to providing timely deliveries, particularly when formal advertising procedures are used. Competitive negotiation appears to be the most advantageous method of procurement under this program as now operated by AID.

We feel strongly that GSA is in a position to make a genuine contribution to the success of the Commercial Import Program. Specialists with many years of training in the various aspects of supply management, including specification preparation, procurement, quality control, and transportation, are available to participate to the extent required in connection with specific commodities. Through use of these skills, we are confident that it will be possible to provide timely delivery of merchandise of known quality at advantageous prices. It is, therefore, our recommendation that the program for GSA participation be progressively expanded and we are working and will continue to work closely with AID toward this end.

Sincerely yours,


J E Woody
Acting Administrator

EXCERPTS FROM
GENERAL ACCOUNTING OFFICE REPORT
TO THE CONGRESS ENTITLED
REVIEW OF AUDIT AND INSPECTION PROGRAMS CONDUCTED BY
UNITED STATES AGENCIES IN VIET NAM DURING 1966
(B-159451, MAY 4, 1967)

* * * *

Mission audits

In our previous survey report, we showed that (1) the Mission audit staff had issued nine reports on the CIP since July 1, 1964, (2) seven audits were in process as of March 1966,¹ and (3) the reports and audits in process were not addressed to the complete range of key points in the commercial import cycle from the requirement determination and licensing of importers through arrival, delivery, sale, and use, nor were they representative of a reasonable testing of the effectiveness of management control of the program

During the period January 1, 1966, to January 31, 1967, the Mission Audit Branch issued 25 reports relating to the commercial import program. Our review of these reports showed that six had resulted from audits of a substantive nature, i e , audits dealing with program segments of significant monetary value or audits requiring a substantial amount of audit effort. The other 19 reports pertained to limited audits, i e , audits dealing with relatively low value segments not requiring substantial audit effort. Of these 19 reports, 16 resulted from audits made pursuant to special requests by either AID/Washington or other AID offices.

The six substantive audits, the limited audits, and the audits in process are discussed in the following paragraphs

¹These seven audit reports were issued by February 28, 1967

Substantive audits completed1. Silver nitrate

The Mission Audit Branch, on June 8, 1966, issued a report as a result of its end-use examination of silver nitrate imported into Viet Nam under the CIP during fiscal years 1964 through 1966. This audit, requested by the AID/Washington Inspections and Investigations Staff (IIS), was conducted during February, March, and April, 1966, and it involved about 184 man-days of audit effort. The Mission's Office of the Assistant Director for Special Projects (ADSP) participated in the audit.

The primary objective of the audit was to determine the use of silver nitrate imported under the CIP, with special emphasis on ascertaining whether this commodity was being used improperly for the extraction of silver or in the manufacturing of explosives. Audit work was confined to the Saigon area, however, extensive audit effort was expended in reviewing applicable records of the Mission, the GVN, importers, wholesalers, retailers, and end-users.

Of a total of 13,568 kilograms of silver nitrate, valued at \$408,346, imported under the CIP during fiscal years 1964 through 1966, end-use examinations were made of 7,315 kilograms, valued at \$220,139, or about 54 percent of the total imported. These examinations, conducted at 48 end-user locations, showed that at least 1,349 kilograms of silver nitrate, or about 18 percent of the amount examined, had been used for extraction of silver to be used in manufacturing jewelry. No evidence was found that silver nitrate had been used in the making of explosives. On the basis of these findings, AID/Washington took the following actions:

1. Notified suppliers in March 1966 to stop shipments of silver nitrate to Viet Nam and to cancel orders with manufacturers.
2. Notified steamship companies carrying AID-financed shipments of silver nitrate to accept no further shipments and to return to the United States all shipments en route to Viet Nam.
3. Eliminated silver nitrate from the list of commodities eligible for financing under the CIP for Viet Nam.

Shipments and orders totaling 45,038 kilograms of silver nitrate, costing \$1,364,217, were canceled by these actions.

2. Lathes

The audit concerning metal-working lathes imported into Viet Nam from Taiwan and Pakistan under the CIP during calendar years 1964 and 1965 was performed by the Mission Audit Branch during the period January through April 1966. This audit involved 250 man-days of audit effort and had been requested by a representative of the IIS after he and a representative of the Mission Controller's office had noted, at the Port of Saigon, a lathe imported under the CIP, which appeared to be in an unsatisfactory condition.

The primary objective of the audit was to determine whether lathes ordered during 1964 and 1965 had been received, had met specifications, and had been properly utilized. Audit work in Viet Nam was confined to the Saigon area, however, work was also done in Taiwan where records of suppliers and agents were examined, manufacture of lathes was observed, and completed lathes were inspected. In Saigon, the auditors examined applicable records at the Mission and at the offices of selected importers, agents, and end-users. The report on this audit was issued on June 30, 1966, and indicated that extensive audit work had been done.

During calendar years 1964 and 1965, the GVN issued 179 import licenses for AID-financed lathes from Taiwan and Pakistan. As a result, 1,248 metal-working lathes, costing \$658,392, were imported into Viet Nam. AID's review of these licenses, examination of related documents, and inspection of lathes in Viet Nam and Taiwan revealed that

- 1 Many of the imported lathes were of substandard quality and/or equipped with motors which were not proper for use in Viet Nam
- 2 At least one Taiwanese exporter and two Taiwanese unlicensed manufacturers had exported to Viet Nam substandard copies of a well-known brand of lathes manufactured in Taiwan
- 3 Import licenses issued by the GVN did not contain adequate specifications for the lathes to be imported
- 4 The lathes had not been marked with the AID emblem as required
- 5 Import licenses had been issued in such a manner as to allow circumvention of the "Small Business" provision of AID Regulation 1
- 6 Portions of the AID-financed commissions paid by suppliers to sales agents were subsequently paid to importers or their agents but were not deducted from the sales prices as they should have been

The audit staff also found that effective statistical studies or accurate surveys had not been made by AID to determine whether there was an actual economic need for the lathes in Viet Nam. The GVN at AID's request suspended, on January 27, 1966, the issuance of licenses for the importation of lathes from Taiwan and Pakistan.

Because the audit had disclosed possible fraud and widespread violations of AID Regulation 1 in the import of lathes from Taiwan, the Mission Audit Branch furnished detailed information, developed during the audit, to the IIS on March 29, 1966, for further investigation. The Mission Audit Branch recommended in its report that

- 1 The Mission's Commercial Import Division (CID) take action through the GVN Director of Commercial Aid to ensure that complete specifications and descriptions are included in all import licenses involving AID-financed commodities and that positive controls are

established to preclude any possibility of circumvention of the AID Regulation 1 "Small Business" provision

- 2 The CID determine, on a case-by-case basis, prior to the issuance of licenses that there is adequate justification for any future imports of AID-financed lathes into Viet Nam
- 3 The CID, in cooperation with the Assistant Directors for Financial Management and Special Projects, review the audit findings and take appropriate action to ensure that suppliers and importers who have seriously violated AID regulations are not permitted to participate in AID-financed commodity import programs in the future

We were advised that eight Taiwanese suppliers and four Vietnamese importers were suspended from further participation in AID programs.

The audit staff concluded that, because the imported lathes did not conform to the descriptions in the implementing documents, the "Eligibility of Commodities" provision of AID Regulation 1 had been violated and therefore the lathes were ineligible for AID financing. A claim for refund from the GVN for the entire cost of the 1,248 lathes, \$658,392, was made on July 22, 1966. At the completion of our review, the GVN had not yet made the refund.

3. Pharmaceuticals

On August 5, 1966, the Mission Audit Branch issued a report on its end-use examination of pharmaceuticals imported into Viet Nam under the CIP during fiscal years 1960 through 1964. The audit, which was conducted during November and December 1965 and which involved 254 man-days of audit effort, was initiated as a regularly scheduled audit and not as a result of a request from AID/Washington or Mission operating officials. The principal objective of the audit was to determine whether the pharmaceuticals had been received and properly utilized. Audit work included a review of records and procedures at the Mission, GVN ministries, and offices of importers and retailers in Saigon.

Of the total of \$42.4 million worth of pharmaceuticals imported under the CIP during fiscal years 1960 through 1964, the auditors attempted to examine the end-use of commodities costing more than \$1.3 million. They found that

- 1 Many importers had failed to maintain adequate records although required to do so by AID Regulation 1 and that, as a result, satisfactory end-use examination of commodities costing \$179,980 was precluded.
2. One importer had reexported pharmaceuticals, costing \$3,110, to Laos without AID authority, thus violating AID Regulation 1
3. AID procedures did not provide adequate guidelines to prevent importers and retailers from realizing excessive profits from

APPENDIX VIII

Page 5

pharmaceutical samples, valued at about \$9,000, which had been invoiced at a cost of about \$273.

- 4 AID had made funds available for the import of pharmaceuticals under the CIP without detailed knowledge of the requirements for these commodities in Viet Nam
- 5 AID had paid about \$3,713 for 952 boxes of Penicillin G Potassium which had not been received
- 6 Penicillin G Potassium tablets for which AID had paid \$70,620 had been declared unsuitable for sale by the GVN
- 7 AID had apparently been overcharged about \$1,200 for pharmaceuticals

The audit report pertaining to this review of pharmaceuticals contained only one recommendation, that AID/Washington review and provide appropriate guidelines concerning AID financing of pharmaceutical samples. Also, on the basis of the findings in the audit, a refund was requested from the GVN for \$86,960 of the \$179,980 worth of pharmaceuticals for which importers had not maintained adequate records. The remaining \$93,020 was no longer subject to a refund claim since the date of AID disbursement was beyond the 5-year time-limitation period prescribed in AID Regulation 1. The 5-year time limitation had also expired for the goods which had been reexported to Laos, and therefore a refund claim for the cost of these commodities could not be made.

The audit report states that AID management was aware of, and was taking action concerning, the need for detailed knowledge as to the requirements for pharmaceuticals in Viet Nam. At the time the audit report was published, some of these transactions were still under investigation by the IIS.

4 Textiles

On August 26, 1966, the Mission Audit Branch issued a report on its audit concerning textiles imported under the CIP during fiscal years 1964 and 1965. The audit was confined to the Saigon area and was performed during April, May, and June, 1966, and involved 92 man-days of audit effort.

The audit covered \$4.2 million, or 53 percent of the total of \$7.8 million worth of textiles imported with AID financing during fiscal years 1964 and 1965. The Mission auditors examined arrival records maintained at GVN Customs office for all 20 of the importers--11 weaving mill factories and 9 wholesalers. The auditors verified the receipt and usage of textiles totaling about \$1.3 million at 1 of the 11 weaving mill factories.

The nine wholesalers of the linen and suiting fabrics sold the fabrics to five cooperatives and 61 primary distribution centers, which in turn sold them to the final end-users. The Mission auditors visited five

cooperatives and 30 primary distribution centers. They attended sales in progress and inspected records and pertinent data on file at the cooperatives and distribution centers

The auditors concluded that the GVN procedures and controls were satisfactory and that textiles had been received in Viet Nam and properly utilized

5. Petroleum products

On January 31, 1967, the Mission Audit Branch issued a report on its examination of petroleum products imported under the CIP during fiscal years 1964 through 1966. This audit resulted from requests for an end-use examination by the IIS and the Assistant Director for Special Projects, and it was conducted during the period October to December 1966 and involved 135 man-days of audit effort. The audit related to the entire \$31.6 million worth of petroleum products imported under the CIP in fiscal years 1964 through 1966. The auditors reviewed the AID procurement authorizations, import licenses, arrival records, and importers' inventory and distribution records. They visited the office and storage facilities of the three importers and examined pertinent records. In addition, the auditors tested receipts of petroleum products at the end-user level in Saigon.

The auditors found that

- 1 AID had billed and the GVN had deposited counterpart funds for the petroleum products imported
- 2 Prices paid by the importers were proper
- 3 Freight costs for commodities shipped in non-United States-flag vessels had not been financed by AID
- 4 The petroleum products had arrived in Viet Nam
- 5 The quality of the commodities was in accordance with specifications
- 6 AID marking requirements had been complied with
- 7 The commodities had been sold to legitimate customers at GVN-regulated prices
- 8 There were no indications of diversion or improper use

They found also that there were no AID policy or guidelines prescribing an allowable in-transit loss percentage for bulk shipments of petroleum products and that all importers were not consistent in requesting price adjustments from their suppliers for losses which they considered greater than normal. The Mission Audit Branch therefore recommended in its report that (1) AID/Washington determine an allowable loss factor for in-transit losses of bulk shipments above which importers must file

adjustment claims and (2) the Mission, after being advised by AID/Washington of this allowable loss factor, require the importers to file claims for price adjustments when in-transit losses exceed this factor

6 Sugar

On January 31, 1967, the Mission Audit Branch issued a report dealing with its examination of six shipments of raw and refined sugar, totaling 46,529 metric tons and valued at \$3,788,623, imported during the period April 1965 to February 1966 from Taiwan, Thailand, and India under the CIP. The audit, performed at the request of the Mission Director, was conducted principally during the period February through June 1966, and it involved 116 man-days of audit effort. Additional visits to the principal importer's refinery were made in September and October 1966.

The objectives of the audit were to determine the propriety of the procurement, receipt, and final utilization of this sugar. The auditors evaluated the acceptability of the amounts of refined sugar produced from the imported raw sugar and were concerned with possible unjustified stockpiling, unauthorized diversions, black marketing, circumvention of Office of Small Business reporting requirements, and AID marking requirements.

The audit work, which was performed in the Saigon area, included a review of procurement documentation, records relating to the offloading, lightering, and warehousing of the sugar, and inventory and production records of refineries. Also, visits were made periodically to authorized retail sales outlets, independent market stall proprietors, and wholesale end-users to analyze the availability of sugar in the economy and to determine whether retail prices were excessive in comparison with official prices prescribed by the GVN.

The audit revealed that the GVN-owned sugar refinery was not accounting for sugar recovered from bags which were torn or broken during vessel and lighter discharging and warehousing operations. It was estimated that about 212 metric tons, or 0.7 percent of the total raw sugar imported by the GVN refinery, had been recovered but not entered in the inventory or production records. The Mission Audit Branch recommended in its report that the Mission request GVN officials to initiate procedures to account for all quantities of AID-financed sugar.

Except for the foregoing matter, the Mission Audit Branch concluded that the sugar importation program was being conducted satisfactorily. The auditors found that

1. The raw sugar received was in accord with the quality contracted for.
2. The invoiced amounts of the shipments were correct, or the importer had filed claims for losses.
3. An acceptable quantity of refined sugar was being produced from the raw sugar imported.

- 4 AID marking requirements had been complied with
- 5 AID had installed a mechanized arrival accounting system which would provide a basis for identification and follow-up of suppliers who had not furnished all the required documentation relating to sugar imports.
6. The retail market price for sugar was not greatly in excess of the GVN official price
- 7 The Mission was aware of the need for constant market surveys to ensure that imports funded by AID were in accord with commodity requirements, and it was making periodic studies to determine the proper course of action to eliminate profiteering and similar abuses.

Limited audits completed

The 19 reports on limited audits issued during the period January 1, 1966, through January 31, 1967, included 16 reports on end-use examinations of commodities having a total cost of about \$945,000. All of these end-use examinations, which required a total of 373 man-days of audit effort, had been requested by AID/Washington and/or other offices of the Mission and often were limited to specific shipments or importers. Only two of these reports contained recommendations for management and, in both cases, the recommendations were that AID review the need in Viet Nam for the commodities examined and determine the extent to which AID should continue to finance these commodities.

The other three limited audits involved 188 man-days of audit effort and pertained to (1) a follow-up review of a previous audit to determine whether suspended importers of iron and steel products should be reinstated for further participation in AID-financed commodity import programs, (2) a review to determine whether AID-financed CIP commodities in one Saigon warehouse had remained in storage under the control of GVN Customs for longer than the allowable 90-day period, and (3) a review of GVN records to obtain information needed to update AID records related to amounts owed to the counterpart account by importers, for surtaxes on CIP commodities for which licenses had been issued but which had not cleared customs at January 1, 1962.

Audits in process

The Mission Audit Branch had 28 audits in process at December 31, 1966, of which 22 involved end-use examinations of CIP commodities having a reported audit coverage value of about \$79.8 million. Some of the commodities involved in the more substantive of these audits in process, as reported by the Mission, are listed on the following page and are discussed in the following paragraphs.

<u>Commodity</u>	<u>Value of audit coverage (millions)</u>
Tinplate	\$ 9 0
Iron and steel products	3.0
Trucks and buses	12 5
Tires and tubes	10 1
Textile machinery	1 7
Paper and paper products	3 5
Non-metallic minerals and products	27.0
Food products machinery	1 1
Non-ferrous metals and products	<u>8 3</u>
Total	<u>\$76.2</u>

Information concerning the dollar value of audit coverage is maintained and reported monthly by the Mission for the purpose of keeping top AID officials, and other interested parties, apprised of the extent of surveillance exercised by the Mission Audit Branch over programs under the AI. Mission's administrative control. Thus, by relating the extent of audit coverage to the nature and magnitude of deficiencies disclosed during such examinations, it is possible to broadly, if roughly, evaluate the manner in which a program is operating.

In reporting the value of audit coverage, however, the Mission Audit Branch generally assigns a value based on the overall value of the program segment, e.g., commodity under review rather than in terms of the coverage of the particular control points accorded selective testing. As such, it is our opinion that the Mission's manner of reporting its dollar value of audit coverage may mislead persons not intimately familiar with its reporting practices. However, we noted an increasing effort to fully disclose the extent of audit coverage in the individual audit reports.

1. Tinplate

During July and August 1966, the Mission Audit Branch had conducted an audit of AID-financed tinplate imported into Viet Nam under the CIP during the period January 1, 1965, to July 31, 1966. At December 31, 1966, there had been 87 man-days expended on this audit. This audit was undertaken in compliance with a request by the Mission's Assistant Director for Special Projects whose staff had noted rusted and damaged tinplate in the port at Saigon, which appeared to have been there for long periods of time.

All the audit work was performed in the Saigon area, and it included the review of records at the Mission and the GVN Ministry of Economy. Visits were made to 12 importers whose dollar allocations, \$3.5 million, represented about 40 percent of the total of about \$9 million worth of tinplate import licenses issued to 108 importers between January 1965 and July 1966.

About \$1 8 million worth of the tinplate to be imported by the 12 importers had actually arrived in Viet Nam. The auditors observed about \$48,000 worth of the commodity at the port, and, from their review of importers' records at their respective Saigon offices, they found that goods valued at about \$31,000 had been sold and that about \$9,000 worth was still in inventory. About \$1 6 million worth of the tinplate was imported by four major end-users. Visual observation of the end use of this tinplate was not made, since, according to the auditor in charge of the examination, most of it was at locations which were insecure because of Viet Cong shelling in the area at the time of the audit. Records of these major end-users were reviewed at their Saigon offices for the purpose of establishing and verifying the tinplate requirements for their operations.

The draft audit report on this examination stated that tinplate received at the port at Saigon had been haphazardly handled and stored and had been scattered throughout the port area and that, as a result, some of it was rusted or damaged. Tinplate had been abandoned by importers because of its deteriorated condition or because it would be too difficult to pick up their shipments from the huge piles strewn about the port. The report concludes that these conditions were caused by two factors (1) long exposure to the elements while the tinplate was temporarily stored on barges and junks awaiting discharge to the dock and while the lengthy customs clearance procedures were in process and (2) negligent handling by port stevedores.

The draft report contained proposals that the Mission, in conjunction with the GVN, take action (1) to have all the abandoned tinplate disposed of at auction and removed from the port and (2) to regulate the unloading of tinplate by the stevedores to eliminate faulty handling and storage. The report further proposed that the Mission consider making a study of the various grades of tinplate for the purpose of eliminating from the list of commodities eligible for AID-financing those grades most susceptible to deterioration from local climatic conditions. At the time of our review, this draft report was being reviewed in the Mission Audit Branch.

2. Iron and steel mill products

During the period July to December 1966, the Mission Audit Branch conducted an end-use examination of AID-financed iron and steel products imported into Viet Nam under the CIP by two Vietnamese importers. At December 31, 1966, there had been 155 man-days expended on this audit. The audit was performed in compliance with requests from the Mission's Office of the Assistant Director for Special Projects. The report on this audit was issued on February 28, 1967.

The examination included a selective review of over 300 import licenses, valued at approximately \$3 5 million, pertaining to iron and steel products licensed for import by two importers during the period December 1964 through July 1966. The importer cards on file at the GVN Ministry of National Economy and Finance were reviewed, and the auditors extracted certain data for confirmation with importers' records. Procurement documentation, import licenses, and suppliers' invoices and arrival records

were examined. Importers' sales were traced to the records of the initial purchasers and to the sales records of the wholesalers and retailers for confirmation with the end-users for commodities valued at \$0.4 million

Import licenses were examined to determine compliance with the Office of Small Business procurement requirements and to determine whether commodities procured were eligible for AID financing.

The auditors were precluded from making end-use checks in many instances because wholesalers and retailers had not maintained records and documentation in accordance with GVN regulations to support their purchases from importers and sales to end-users. Of 68 wholesalers and retailers visited, 48 could not produce the required records and documentation to support their purchases from importers and the subsequent sales to end-users, relating to CIP commodities valued at \$205,000. At the time of our review, the Mission was processing a claim for refund of this amount from the GVN. The audit report proposed that the Mission request the GVN to advise the importing community, including wholesalers and retailers, to comply with the provisions of AID Regulation 1 which requires that adequate records be maintained for a 5-year period on all commodities financed by AID. Because of the high rate of recordkeeping deficiencies noted, the Mission Audit Branch is performing additional audit work in this area

The auditors found that 32 licenses having a total value of \$505,208 (or an average value of \$15,788 each) had not been reported to the Office of Small Business.

3. Trucks and buses

During August 1966, the Mission Audit Branch began an end-use examination of trucks and buses imported into Viet Nam during the period July 1, 1964 through June 30, 1966. At December 31, 1966, there had been about 168 man-days of audit effort expended on this audit. This audit was undertaken in compliance with a request by the Mission's Assistant Director for Special Projects, who was concerned about the possibility of the diversion of the trucks and buses to the Viet Cong. The objectives of the examination were to determine whether the trucks and buses licensed under the CIP had been received in Viet Nam and properly utilized.

The audit showed that 3,199 trucks and buses, valued at about \$17 million, had been imported during the period covered by the audit. Of the 1,466 trucks and buses, valued at about \$8 million, selected by the auditors as a representative sample, it was found that 652 units had been sold. By conducting interviews with 76 end-users, the auditors verified the disposition of 144 of the 652 units, 55 of the 144 units had been visually inspected. The end-use examination was made in the Saigon area.

4. Tires and tubes

During the period August 8 to December 31, 1966, the Mission Audit Branch conducted an audit of tires and tubes imported into Viet Nam under the CIP during fiscal year 1965. At December 1966, there had been 98 man-days of audit effort expended on this audit. The objectives of this

audit were to determine the importers' receipt and disposition of the commodities, whether records of importers' customers agreed with those of the importers, and whether end use had been proper. All audit work was performed in the Saigon area, and it included reviews of records at the Mission and at offices of 20 importers, 9 retailers, and 19 end-users.

Of a total of more than \$4.4 million worth of procurement authorizations (PAs) issued for importation of tires and tubes during the period under review, the auditors reviewed licenses, totaling about \$1.8 million, issued for commodities funded under four PAs for fiscal year 1965. The review included a test of 110 shipments of tires and tubes. Actual end-use verification was performed in connection with commodities valued at about \$187,000.

The auditors found that the commodities reviewed had been procured in accordance with provisions of the applicable PAs and AID regulations. They determined that, generally, the records maintained by the importers' customers were adequate and that the tires and tubes sold were purchased by owners of buses and trucks operating between Saigon and the provinces. The auditors noted in one instance that a retailer sold tires and tubes to an end-user through an unlicensed middleman and that this middleman had charged the end-user a price higher than the official selling price established by the GVN. The draft audit report proposed that the Mission refer this violation of GVN pricing regulations to the GVN for appropriate action. At the time of our review, the audit report was in the draft stage.

5. Textile machinery

During August 1966, the Mission Audit Branch began an audit of textile machinery imported into Viet Nam during fiscal years 1964, 1965, and 1966. At December 31, 1966, there had been 35 man-days of audit effort expended on this assignment which was scheduled as part of the Mission's fiscal year 1967 regular audit plan. This audit will include a review of at least 37 importers' licenses and records covering receipt, storage, and sale of machinery valued at about \$1.3 million.

A total of about \$3.6 million had been obligated under four procurement authorizations issued for this commodity during the period being reviewed. Disbursements as of December 31, 1966, totaled about \$2.8 million. At the time of our review, 10 importers of machinery, valued at about \$101,000, had been visited. Audit work will be performed in selected provinces as well as in the Saigon area. This audit will include a review of end use, however, the extent of the end-use verifications to be made had not been determined at the time of our review.

6. Paper and paper products

During September 1966, the Mission Audit Branch began an audit, including end-use examination of paper and paper products (except newsprint) imported into Viet Nam under the CIP during the period August 1965 through July 1966. At December 31, 1966, there had been about 104 man-days of audit effort expended on this assignment. This audit was initiated as a result of a request from AID/Washington for specific information on two

shipments of cigarette paper. To attain broader audit coverage, the Mission Audit Branch expanded its review to include two ship cargoes of paper and paper products consisting of 265 individual imports valued at about \$415,000. About \$4.2 million had been disbursed under three procurement authorizations for fiscal year 1966 for paper and paper products.

The audit included a review of procurement documentation, import licenses, letters of credit, bills of lading, and invoices and inventory and sales records of importers, wholesalers, and retailers. At the time of our review, visits had been made to 41 importers who had received commodities valued at about \$66,400. Verifications at the end-use level had been recently completed, but results thereof had not yet been tabulated at the time of our review.

7. Nonmetallic minerals and products

During the period October 24, 1966, to the time of our review, the Mission Audit Branch was conducting an examination of nonmetallic minerals and products imported under the CIP during fiscal years 1964 through 1966. At December 31, 1966, there had been about 87 man-days of audit effort expended on this review. We were informed that the auditors would test-check at the importer level about \$10 million of the total of about \$27 million worth of these commodities imported into Viet Nam during the period under review. We were informed also that the auditors would perform end-use checks at about 100 end-users, covering commodities valued at about \$3 million.

At the time of our review, the Mission Audit Branch was processing a draft interim report on this audit to initiate prompt corrective action on deficiencies noted to date. The draft interim report pertains to the examination of the records and inventories of one importer of barter cement, the principal commodity included in AID's commodity category of nonmetallic minerals and products. This importer, one of the two largest importers of cement in Viet Nam, had imported about \$5.1 million worth of cement during the period under review.

The auditors, in attempting to reconcile the importer's inventory records with information obtained from GVN customs, found that the customs records did not show the actual amounts of cement that had been released to the importer. Instead, they showed the total invoiced amount on which the importer was required to pay customs. Therefore, the quantity of cement actually received and for which the importer was accountable was not determinable from official records. In-transit or other losses, which purportedly accounted for the difference between the importer's records and the customs records, could not be verified because there was no documentation for smaller losses claimed by the importer and documentation on the larger losses was questionable.

The auditors concluded that this situation could enable unscrupulous importers to divert AID-financed cement. The draft interim report proposed that the Mission recommend to the GVN that a procedure be established to document and record the quantities and value of all AID-financed cement actually released to importers through customs and that the Mission

request the GVN to enforce more vigorously its requirement that importers maintain adequate documentation for losses. The auditors found that cement had not been properly marked with the specific Procurement Authorization/Procurement Request (PA/PR) number as required. As a result the auditors were unable to assure themselves that proper inventory control of the cement by lot or shipment was maintained. Also, adequate end-use checks could not be performed because of this deficiency in the marking of cement bags. The draft interim report proposed that, in future barter contracts, AID/Washington and the Commodity Credit Corporation change the cement bag marking requirements to include a lot or serial number so that the cement may be identified with a ship and import license.

8 Food products machinery

During the period August to November 1966, the Mission Audit Branch had conducted an end-use examination of food products machinery imported under the CIP during the period January 1965 through September 1966. At December 31, 1966, there had been 68 man-days expended on this examination which was performed as part of the Mission Audit Branch planned fiscal year 1967 audit coverage of industrial machinery. The objectives of this examination were to determine whether the food products machinery licensed under the CIP had been received in Viet Nam and properly utilized. The commodities involved in this examination included beer, soft drink, milk and juice bottling machinery and parts, baking ovens, and ice cream and soft drink dispensers. Audit work was performed in the Saigon and Thu Duc areas.

Of the total of about \$1.3 million worth of licenses issued for the importation of this machinery during the period reviewed, the audit covered 13 licenses valued at more than \$740,000, or about 58 percent of the total issued. Of this amount, it was found that machinery and parts valued at about \$470,000 had been received in Viet Nam. Actual end-use examination covered commodities valued at about \$459,000, and the examination was made at three producers of bottled goods, two bakeries, one restaurant, and one grocery store. Commodities were also observed at the port at Saigon and at the Saigon warehouse of one supplier's local agent. This end-use examination showed that the machinery and parts were, in general, being utilized properly.

9. Nonferrous metals and products

During November 1966, the Mission Audit Branch began an end-use examination of nonferrous metals and products imported under the CIP during fiscal years 1964, 1965, and 1966. Audit work on this assignment, which is one of the Mission's regularly scheduled fiscal year 1967 audits, was planned to be performed in the Saigon area and possibly in selected provinces. At December 31, 1966, there had been about 6 man-days of audit effort expended on this review. We were informed that the auditors would test-check at the importer level about \$5 million of the total of about \$21 million worth of these commodities imported into Viet Nam during the period under review. At the time of our review, auditors had not determined the extent of final end-use examination that would be performed.

10. Review of CIP procedures

A procedural review of the CIP on which 120 man-days had been expended was in process at December 31, 1966. The auditors planned to examine the procedures employed by AID and by the GVN in implementing the CIP to determine the extent of compliance with these procedures and to evaluate their effectiveness in relation to AID regulations and good management practices. This audit will include visits to importers to review the type of records maintained for control over CIP commodities. At the completion of our review, the Mission Audit Branch was processing an interim report resulting from this audit. This draft interim report deals with the fact that the Mission and the GVN had not taken certain actions required to deobligate more than \$5 million of CIP funds which were no longer used for the purpose for which they had been originally obligated. We were advised that the report would propose that both the Mission and the GVN take the necessary actions to identify and effect deobligation of the unused CIP funds.

Observations

In our prior survey report, we reported that the Mission audit reports and audits in process were not addressed to the complete range of key points in the commercial import cycle from the requirement determination and licensing of importers through arrival, delivery, sale, and use, nor were they representative of a reasonable testing of the effectiveness of management control of the program.

We found during our current review that increased audit effort had been devoted to examining the primary control facets of the CIP program.

The audits performed by the Mission Audit Branch varied greatly in both breadth and depth of coverage. They ranged from reviews of a single transaction of relatively small monetary value and a single key management control point in the commercial import cycle to comprehensive reviews involving a number of program segment control points, e.g., licensing, delivery, customs clearance to the importer, and end use. Also, the principle of selective testing is employed, as a general audit rule, particularly where audit coverage is broad or efforts are expended to determine the receipt and disposition (i.e., end use) of commodities. Where several control points are involved in the audit, adequate coverage of the complete program segment requires that the selection at the first and each succeeding point be representative of conditions throughout the entire program segment both as to the values tested and as to the complete spectrum of the segment.

We observed that, where audits were performed of large program segments involving several key management control points, testing generally was applied at the successive control points within the monetary coverage selected for the preceding point. In a number of the Mission audits performed, it appeared that there was representative coverage at certain of the stages through which transactions move, e.g., licensing, ordering, and eligibility. It seemed to us, however, that the principle that selective testing at each successive control point be representative of

conditions throughout the program segment was not always observed. The environment in which these transactions occur indicates that the later stages of import transactions are more deserving of representative coverage than the earlier and more easily controlled stages.

The coverage of arrivals in the port, the clearances through customs, the delivery to importers, and the end use generally were on a narrower basis than for earlier transaction stages and, in our opinion, was not representative of the entire program segment reported upon. There is a long time span from the initiation of import licensing through delivery to the importer and end use, and audits performed of the arrival through end-use stages can deal only with the commodities that have actually reached those stages. Consequently, this often represents only a relatively small part of the total program segment at the time an audit is performed.

Regarding audits of the commercial import program which involve an element of commodity end use, this phase generally consisted of audit procedures designed to determine if the importer and/or end-user(s) can account for the commodities financed under the program. Extent of audit coverage relating to end-use examinations during the period under review has been limited by generally restricting such reviews to the Saigon area and, in some instances, conducting such limited end-use checks that the results obtained may not be representative of existing conditions.

AID/Washington audits

In addition to the foregoing audits by the Mission Audit Branch, the AID/Washington Audit Division, Office of the Controller, examined, during 1966, the United States economic assistance program in Viet Nam for the period July 1, 1961, to June 30, 1966. Its report issued in October 1966 and described further on pages 61 to 62 contained several significant findings relating to the CIP, as follows:

- 1 Progress was being made to improve GVN import licensing procedures. However, the inherent weaknesses in the licensing system--past and presently remaining, permit undesirable practices to exist--including speculation, contrived shortages, and windfall profits from sales at higher than official prices--and handicap the effectiveness of the CIP in Viet Nam.
- 2 Price-checking procedures within the GVN had not been effective. There had been a lack of adequate Mission surveillance or review of the GVN price-checking system to determine if, in fact, the controls were effective and the best prices had been obtained for AID-financed commodities.
- 3 There was a need to establish and to effectively operate and maintain an adequate arrival accounting system.

AID's Bureau for Far East advised the AID Controller on February 6, 1967, that the following actions have been or will be taken on the above findings.

- 1 Problems relating to GVN import licensing procedures have been mitigated by recent CIP reforms including abolishment of the import quota system, closer adherence to Office of Small Business procedures, and increasing competition through allowing admission of new importers. Devaluation has nullified windfall profit possibilities and has dampened enthusiasm for speculation. The Mission plans, at all appropriate levels, to take steps to urge GVN to improve upon and liberalize import procedures.
- 2 Some monitoring is being done as the Mission has two trade advisors at the GVN agency. Also the Mission staff has the opportunity to examine on several occasions the Office of Small Business submission in the prelicensing phase, licenses are reviewed prior to issuance. Continued efforts will be made to persuade the GVN to permit additional American staff to be assigned to monitor GVN operations in order to promote increasing competition.
- 3 The foundation for a new system of arrival accounting, using data processing methods, has been established with the objective of gaining control of CIP commodity arrivals and distressed cargo and of providing a good starting point for end-use audits.

Inspections and investigations

The Inspections and Investigations Staff (IIS), formerly the Management Inspection Staff, and the Inspector General of Foreign Assistance, Department of State, perform inspections and investigations principally as to specific irregularities

From February 18 to December 31, 1966, IIS initiated 170 cases. Of these cases, 6 were closed without action because the allegations were found to be without foundation. The remaining 164 cases were in process at December 31, 1966. Of the 51 cases in process at February 18, 1966, as indicated in our prior survey report, 11 resulted in remedial action, 10 were closed without action because the allegations were found to be without foundation, and the remaining 30 cases were still in process of investigation at December 31, 1966.

An IIS official estimated that about 60 to 70 percent of their case load involved matters bearing on the commercial import program. The cases investigated by this organization cover a wide range of irregularities involving commodities financed under the program, such as false certifications of the origin of commodities, kickbacks to commodity importers, procurement irregularities, and fraud against the United States. Further details on the work of this organization is shown on pages 60 to 61.

Among the variety of matters covered by the Inspector General of Foreign Assistance in Viet Nam were several inspections concerning the CIP, such as lack of accurate and up-to-date information, excessive prices paid, and possible violations of the United States source procurement regulations. The functions and work of this organization are further described on pages 67 to 68.

Reviews by AID Mission Office of
Special Projects

During March 1966, the Mission established the Office of Special Projects, also called the Assistant Director for Special Projects (ADSP), to examine into commodity diversion, customs evasion, pricing, and distribution practices which in any way would benefit the Viet Cong.

At December 31, 1966, ADSP had a staff complement of 14 with 5 additional authorized positions unfilled. ADSP's work was primarily of an investigative nature relating to commodities imported under the commercial import program. For example, efforts were made (1) to determine whether pharmaceuticals found in Viet Cong caches could be directly linked to the importers, (2) to review GVN licensing procedures, and (3) to conduct a study relating to the importation of antibiotics. An ADSP official informed us that no records had been maintained to show the audit effort expended on each assignment.

There is a question as to the future of the ADSP. At the time of our review in February 1967, the unit's Deputy Assistant Director had been transferred to the Inspections and Investigations Staff and five staff members had been loaned to the staff of the AID Mission Controller.

APPENDIX VIII

Page 19

ADSP no longer performs end-use audits of commodities. These are now performed by the Mission Audit Branch. Also, inquiries concerning the commercial import program formerly handled by ADSP are now referred to the Mission's Commercial Import Division except in specific instances when, at the request of the Mission Director, ADSP retains action.

The Assistant Director, ADSP, in November 1966 requested the Mission Director to reappraise ADSP's assigned functions. The reappraisal request was predicated on the premise that the establishment of ADSP had been an interim measure to permit AID to build up existing units with sufficient manpower and know-how to assume the assigned responsibilities of ADSP. At the time of our review, the matter was still unresolved. The Mission Director informed us on February 7, 1967, that he was deferring his decision on ADSP's future until a new Economic Warfare interagency organization, planned for establishment in the Deputy Ambassador's office, is actually in operation.

In April 1967, AID's Assistant Administrator for Administration advised us that, in October and November 1966, the Deputy Assistant Secretary of Defense headed a study group in Viet Nam and that this study group submitted recommendations for the establishment of a full-time interagency office of Economic Warfare. At the present time, indications are that the Office of Special Projects will be maintained, probably without auditors but with analysts capable of conducting preaudit surveys concerning AID-financed transactions. It would not duplicate or otherwise compete with the functions of other AID offices but would be a full-time service organization working with the rest of AID to collect and evaluate data bearing on illicit or subversive practices and would recommend measures for dealing with such practices.

Office of the Special Assistant for Commodity Analysis

The Office of the Special Assistant for Commodity Analysis (OCA) in the Bureau for Far East/Washington complements the Mission's ADSP, and, as of December 31, 1966, the OCA consisted of four staff members.

We were advised by the Special Assistant, OCA, that his office did not have the authority to implement its suggestions but could pass information on for consideration and possible action, to the Assistant Administrator, Bureau for Far East, or to other appropriate officials within the Office of the Controller, the Inspections and Investigations Staff, and the Viet Nam AID Mission. For example, the OCA transmits to the Mission's ADSP the results of surveys and studies concerning AID-financed transactions pointing out areas that appear to be in AID's interest to investigate. Such guidance results from office surveys, as well as from liaison with other AID offices and other government agencies, and from contacts with private sources.

United States Customs Advisory Team

The United States Customs Advisory Team became operational in Viet Nam in March 1966 and has dealt primarily investigations and the

physical inspections at the port of entry of commodities imported under the CIP. The Customs Team also assists the GVN Customs agency in improving its practices for collecting duties and taxes and in clearing cargo through the ports. Under an agreement between AID and the United States Customs Service, the American technical personnel required for this operation are furnished by the Customs Service. As of December 31, 1966, the Team had filled 10 of its 18 authorized American technical personnel positions and 9 of its 25 authorized local employee positions.

Of the 10 customs specialists, 5 were concerned primarily with the inspection of incoming CIP commodities and 5 were performing supervisory responsibilities or were concerned generally with investigations pertaining to CIP commodities. The five Customs personnel performing inspections were assisted by an independent inspection company under contract with the Mission. Data as to the extent of inspections performed by both the customs team and the independent inspection company were not available at the time of our review, but we were advised that steps were under way to establish a reporting system which would yield such data.

We found that the team had conducted 56 investigations, of which 29 involved CIP commodities, 1 involved a Food for Peace commodity, and 26 involved matters such as smuggling and illegal money transactions. These investigations are discussed below.

1. We noted that, of 29 investigations involving CIP commodities, 19 dealt with relatively minor damage or loss of CIP commodities and 10 involved possible irregularities such as failure to meet commodity specifications and false declaration of country of origin.

Following are three of the more significant cases:

- a. One case concerns possible fraud in connection with AID-financed sewing machines valued at about \$320,000. This case is pending action by the GVN customs agency.
- b. The second case involves marine engines, valued at \$690,000, which failed to meet specifications. This case has been referred through the Inspections and Investigations Staff (IIS) to the Department of Justice.
- c. The third case involves possible fraud concerning the importation of oil refining equipment valued at approximately \$265,000. This case has been referred to the IIS.

2. The investigation concerning the Food for Peace commodity dealt with the seizure of over 10 tons of powdered milk which was being diverted to the commercial market. The GVN fined the carriers of the milk about \$4,000 (dollar equivalent) and ordered the milk to be redistributed.

3. Of the 26 investigations involving matters other than AID-financed CIP commodities, 16 involved smuggling of such commodities as motorcycles, furs, and gold, 8 involved illegal money transactions, such as counterfeiting, currency exchange, and improper use of military postal services, and

2 dealt with miscellaneous problems. These cases are usually referred to IIS, GVN agencies, and other interested parties after initial work by the Customs Team.

A customs official informed us that additional personnel should be assigned to increase the volume of necessary inspections and follow-up investigations relating to the CIP program. Consequently, positions for seven additional customs personnel have been approved.

Particular problem elements

In our prior survey report, we concluded that there was a critical need for more comprehensive, and therefore more effective, internal audit and management reviews.

Although considerable progress has been made by the Mission Audit Branch in terms of audit effort and coverage over that shown in our prior survey report, we believe that additional efforts are required to perform a greater number of substantive audit reviews.

We noted that, during calendar year 1966, 20 of the 25 reports pertaining to the CIP program were issued as a result of information requested by AID/Washington or as a result of information requested by activities within the Mission. Therefore, only five of the reports apparently resulted from reviews into areas the Mission Audit Branch believed desirable or in compliance with AID manual orders. In this regard, it is our view that the Mission Controller should be instructed to give priority to such reviews over limited-type reviews requested by other AID offices unless they are requested by the Mission Director, the AID Controller, or higher authority as urgent. The audit record indicates that limited reviews on special requests were a problem in 1966 and limited the number of substantive audit reviews.

MISSION INTERNAL AUDIT PROBLEMS
AND ACTION TAKEN AND PROPOSED

Staffing problems

Our prior survey revealed that the effective audit effort of the Mission Audit Branch had been reduced substantially because of assignment of American audit personnel to nonaudit assignments, home and other types of leave, training, and other indirect assignments. We found that net effective audit time expended by American personnel for the 6-month periods ended June 30, 1965, and December 31, 1965, had amounted to equivalent of the full time of only 6 9 and 11 6 auditors, respectively. During our follow-up survey, we found that the net effective audit time had increased substantially. The following table, prepared from information in Mission records, summarizes for the four 6-month periods through December 31, 1966, the net effective audit effort of the Mission Audit Branch

	Net effective audit effort American audit personnel			
	Six-month periods ended			
	6-30-65	12-31-65	6-30-66	12-31-66
Number of personnel, after deducting time on home leave and nonaudit details	9 4	14 8	13 9	27 6
Less time for other types of leave, training, etc	<u>-2 5</u>	<u>-3 2</u>	<u>-2 6</u>	<u>-6 1</u>
Net effective audit effort--in terms of equivalent personnel	<u>6 9</u>	<u>11 6</u>	<u>11 3</u>	<u>21 5</u>

At the time of our current review, 33 American auditors were assigned to the Mission and it was forecast that all 35 of the authorized American auditor positions would be filled by April 30, 1967

Mission records also showed that, after deducting leave and other nonaudit time, an average of 14 7 local audit personnel were productively available during the 6-month period ended December 31, 1966, out of the equivalent of 18 6 assigned. This an improvement over the 6-month period ended December 31, 1965, when an average of 12 5 local audit personnel were productively available out of the equivalent of 16 9 local personnel assigned. However, a shortage of local national auditors still adversely affected the capability of the Mission Audit Branch. At the time of our review, only 22 of the 46 authorized local national auditor positions were filled.

In our previous report, we pointed out that many of the American audit personnel assigned to the Mission Audit Branch lacked the training and experience needed. We reported that, as of February 28, 1966, nine of the American auditors assigned had had previous AID experience, while the

remaining 10 auditors were serving their first tour with AID. Our current review had disclosed that, while there has been an overall increase in the total number of American auditors assigned, including those with previous AID experience, a large proportion of the recent additions to the staff are auditors without previous experience in AID work, as shown by the following analysis

AID Mission audit staff, Saigon
as of January 9, 1967

Date of arrival at post	<u>Background of American personnel</u>		
	<u>AID- experienced</u>	<u>First tour with AID</u>	<u>Total</u>
Prior to July 1964	2		2
July to December 1964	2		2
January to June 1965		1	1
July to December 1965		3	3
January to June 1966	3	3	6
July to December 1966	5	12	17
January 1967	—	<u>2</u>	<u>2</u>
Total on board	<u>12</u>	<u>21</u>	<u>33</u>

AID/Washington officials have stated that the newly recruited American auditors assigned to Viet Nam are fully qualified from a professional and educational standpoint for the positions they are filling. In our opinion, even though these employees may be fully qualified, there is no substitute for time on the job to become familiar with AID's policies and procedures.

So that staffing practices may be strengthened, we believe that AID should, among other things, increase the emphasis on assigning AID-experienced auditors to Viet Nam on permanent or temporary basis and should consider initially assigning newly recruited auditors to less demanding posts than Viet Nam.

Requests for audits by other AID offices

Another problem which has hampered the Mission Audit Branch in providing adequate audit coverage of the economic assistance program to Viet Nam has been the receipt of many requests from AID/Washington or other AID offices. These requests were often for routine, limited-scope audit work pertaining to small-value items, but frequently involving CIP commodities of a sensitive nature or critical to the war effort. As pointed out on page 27 of this report pertaining to the CIP, 16 of the 19 limited audit reports issued by the Mission Audit Branch between January 1, 1966, and January 31, 1967, resulted from requests from AID/Washington or other AID offices. Although these requests appeared to be legitimate attempts to secure audit services with resultant findings and recommendations needed for program purposes, compliance with these requests adversely affected the substantive audit coverage.

ctions taken to improve Mission
udit staffing and coverage

Since early 1966, AID has increased the number of authorized American auditor positions in the Mission Audit Branch from 21 to 35 and the number of authorized local national auditor positions from 23 to 46. At the time of our current review, there were 33 and 22 American and local national auditors, respectively, assigned to the Mission Audit Branch.

It was forecast that by April 30, 1967, the Mission Audit Branch could be staffed with its full authorized strength of American auditors, but recruitment of qualified local auditors was still a problem. To compensate for the lack of qualified Vietnamese employees, AID recruited 23 third country nationals from Taiwan and was attempting to obtain clearance from the GVN for them to begin work in Viet Nam. At the time of our current review, GVN clearance had been obtained for 2 of these 23 individuals. These two auditors arrived on February 24, 1967.

In addition to the actual and planned future increases in the size of the Mission Audit Branch staff, the Mission had, in September 1966, begun assigning auditors to work in the provinces outside the Saigon area. (See pp 42 to 44)

HEADQUARTERS AND WASHINGTON AUDITS,
INSPECTIONS, AND INVESTIGATIONSInspections and Investigations Staff

The AID worldwide Inspections and Investigations Staff (IIS), formerly the Management Inspection Staff, is responsible for personnel integrity within AID and for investigating possible violations of Federal statutes and other irregularities relating to AID-financed transactions. During the first half of 1966, there were two regular staff members and two or three personnel on temporary assignment in the Saigon office of IIS. The number of regular staff members was increased to six by October 1966. We have been informed by IIS officials that there are plans to add one additional inspector to the staff at Saigon during the early part of 1967. The IIS inspectors on duty in Saigon as of December 1966 appeared to be well qualified from an experience standpoint as they had been in investigative type of work with the United States Government for periods of 10 to 25 years.

Following is a tabulation showing the status of IIS investigations in process at the time of our prior survey and of those opened during 1966 subsequent thereto.

<u>Type of case</u>	<u>In process 2-18-66</u>	<u>Opened between 2-18-66 and 12-31-66</u>	<u>Cases closed during 1966</u>		<u>In proces 12-31-</u>
			<u>Resulted remedial action</u>	<u>Without action</u>	
Fraud against United States Government	15	15	4	2	24
False certification of origin of commodities	14	95	1	3	105
Flight of capital	1	-	1	-	-
Diversion of commodities	3	5	1	-	7
"Kickback" to commodity importers	6	14	-	4	16
Procurement irregularities by importers and exporters (including AID contractors)	4	24	1	2	25
Bribery, forgery, smuggling, and theft	3	6	-	2	7
Conflict of interest	1	1	-	1	1
Administrative inquiries	2	5	2	-	5
Others	<u>2</u>	<u>5</u>	<u>1</u>	<u>2</u>	<u>4</u>
Total	<u>51</u>	<u>170</u>	<u>11</u>	<u>16</u>	<u>194</u>

Of the 51 cases IIS had in process on February 18, 1966, as report in our prior survey report, in addition to the 11 that resulted in full remedial action, 7 resulted in partial remedial action, 9 were referred to the Department of Justice for consideration of criminal prosecution.

civil recovery of damages, and 4 were referred to the AID Controller for collection action. Ten cases were closed without action because the allegations were found to be without foundation and 10 were still under investigation by IIS. IIS is also continuing to investigate portions of the seven cases which resulted in partial remedial actions. Remedial actions consisted of such actions as recovery of about \$180,000, refund claims amounting to \$1.3 million being forwarded to the GVN, suspension of suppliers and importers, and barring of specific commodities.

Of the 170 cases opened since our prior survey, 6 were closed without action because the allegations were found to be without foundation. Of the remaining 164 cases, which were in process at December 31, 1966, 5 were referred to the AID General Counsel for consideration of legal action, 2 to the AID Controller for refund action, and 1 to the Viet Nam police for further investigative action. Partial remedial action was taken in 7 cases by suspension of suppliers, however, additional investigative work was still in process on these cases.

Most of the 95 cases involving false certification of origin of commodities were opened during the latter part of 1966. IIS officials have stated that, although some reports of investigation of these cases are now being received, the process is time consuming in that such cases involve extensive investigation and analysis in several supplying countries other than Viet Nam and a considerable period will elapse before an appreciable number of investigations are completed.

AID/Washington Audit Division

The AID/Washington Audit Division, as part of the Office of the Controller, plans and performs audits of Agency headquarters and Mission operations, evaluates the efficacy of Mission audit plans, performance, and staff development, and recommends, where appropriate, corrective action. On January 1, 1967, the Audit Division comprised 49 professional staff members. Work of the Audit Division as it pertains to AID programs in Viet Nam is described below.

Review of Mission activities

The Audit Division in 1966 performed a review of AID operations in Viet Nam covering the period July 1, 1961, to June 30, 1966. Four auditors were in Saigon from March 27 to August 12, 1966, and we were advised that no field trips had been made outside the city.

The principal objective of the review was to determine on a selective basis the effectiveness of program implementation and financial and administrative management, as well as the degree of compliance by the Mission with the laws, policy determinations, and administrative regulations and procedures of AID.

The report on this review which was issued on October 10, 1966, contained 30 recommendations. Some of the more important matters disclosed in the report are as follows:

APPENDIX VIII

Page 27

- 1 The Mission did not have an effective system in operation to record the arrival and utilization of the significant quantities of project commodities
- 2 There had been inadequate surveillance of the GVN receipt and distribution records by most Mission technical divisions, and no reviews had been made in these areas to determine the adequacy of Mission or GVN commodity arrival recordkeeping, controls, and usage
- 3 In financial operations, the Mission's overall audit coverage had been inadequate. There had been an insufficient number of audits of the highly important commercial import program and no reviews of control over the large amounts of commodities purchased for the revolutionary development program or for direct delivery to GVN agencies. There were also deficiencies in the timely submission to AID/Washington of required reports on Mission audit plans and performance
4. In the \$10 million purchased piaster program, proper monitoring of piaster advances would have detected or precluded some of the serious irregularities uncovered later by Mission audits. Also, funds obligated for release to individual provinces were used in subsequent years for purposes other than those contained in the obligating agreements
- 5 The National Agricultural Credit Office, a GVN agency, which had received sizable assistance since 1957 and had not been able to accomplish its intended objectives, was on the verge of insolvency. The Audit Division believed that with proper supervision by the Mission this deterioration would not have gone unnoticed and that steps could have been taken to stem the decline
- 6 In the title II, Public Law 480, program, duplicate records were being maintained in Mission offices and agencies of the GVN. Further, certain control features were lacking in the handling and forwarding to AID/Washington of claim documentation
- 7 There have been longstanding deficiencies in the area of noncompliance with AID procurement regulations to ensure competitive pricing. Measures have been taken recently toward their correction. However, there was a need for an American staff adequate to monitor the GVN price-checking function

AID's Bureau for Far East did not respond to the AID Controller on the recommendations until February 6, 1967. The Bureau's comments indicate that action has been or will be taken on the matters described above.

In January 1967, the Audit Division assigned two auditors to Saigon to review the systems currently being considered and implemented, to make certain that they provide adequate accountability records and systematic recordation of receipts, issues, and balances of commodities at storage or control points to ensure necessary audit trail for future audits and

verification Further, the group was to consider the feasibility of making verifications of systems already in operation and of systems in process of being installed

Surveillance of Mission activities

The Audit Division has made an evaluation of each of the 34 audit reports issued by the AID Mission in Viet Nam during the 6-month period ended December 1966 The evaluations made by the Audit Division and correspondence with the Mission indicated that the Mission's audit reports were generally considered satisfactory

It is our view that these evaluations served a useful purpose even though they were limited by (1) the lack of opportunity for discussion between the Washington reviewer and the Mission auditors primarily responsible for the work and (2) the lack of reference by the Washington reviewer to the Mission working papers supporting the report

The AID Controller notified the Mission in September 1966 that there was a need, and provided constructive guidance, for a higher quality of reporting and a more complete disclosure of audit findings even when advised by Mission personnel that action had been taken to correct the reported deficiencies

The AID Controller, in a message to AID Missions on November 23, 1966, reaffirmed and stressed the need for Mission audit effort and the independent role of the Mission Controller in the execution of his audit responsibilities and made the following specific points

- 1 The responsibility for the timely scheduling, including priorities, and performance of Mission audits of AID-financed assistance of all types and for Mission administrative activities is vested in the Mission Controller
- 2 Audits performed by overseas Mission personnel will be addressed to the Mission Director over the signature of the Mission Controller, independent of the dictates of any other Mission official
- 3 Clearance for issuance of audit reports by any Mission official prior to release by the Controller is not necessary
- 4 Issuance of Mission audit reports to senior Mission management officials and action offices and to AID/Washington shall be accomplished concurrently

A review of Mission audits in November 1966 revealed that the quality of the reports had improved over the past few months but that production during fiscal year 1967 had been less than satisfactory

* An AID Audit Division official told us that during his supervisory visit to Saigon in December 1966 he had advised Mission officials that a disproportionate amount of time was being spent on request reviews with limited audit coverage

In view of the Audit Division finding that the Mission's overall audit coverage during the period July 1, 1961, to June 30, 1966, had been inadequate (see p 61), we suggest that the Audit Division follow up on this matter in its next audit of Mission operations and closely review the adequacy of the Mission's audit efforts, including such matters as coverage of the primary control facets of AID's assistance programs in Viet Nam.

AID/Washington Operations Evaluation Staff

The AID/Washington Operations Evaluation Staff (OES) is a staff facility of the Administrator for making special assessments of AID policies and programs in aid-receiving countries and of the performance of the AID Mission staff and related headquarters staff in carrying out country programs. The Acting Chairman of the OES informed us that the OES had performed no evaluations in Viet Nam and that he was not aware of plans to do so in the near future.

Financial Review Division,
Office of the Controller, AID/Washington

The Financial Review Division, AID/Washington, consists of a Voucher Examination Branch (VEB), Price Analysis Branch (PAB), Banking Branch, and Systems Staff. The VEB and PAB perform functions relating directly to Viet Nam activities as outlined below.

Voucher Examination Branch

The Voucher Examination Branch is responsible for the examination, audit, and certification of vouchers, primarily from the standpoint of determining eligibility of supporting documents, and the monitoring of certain policy and regulatory provisions imposed by the United States Government. Within the VEB, there is a Commodity Audit Unit which is responsible, among other things, for the examination of vouchers and related supporting documents involving AID commodity expenditures for program and capital assistance.

During calendar year 1966, the Commodity Audit Unit of the VEB audited 27,181 transactions amounting to over \$764 million out of a total of 125,672 transactions amounting to over \$1,400 million. An AID official advised us that it was not practicable to identify vouchers applicable to the Viet Nam program for the entire calendar year 1966. However, we were furnished with data showing that, for the 6-month period ended December 31, 1966, the Commodity Audit Unit audited a total of 6,827 transactions amounting to about \$113 million applicable to the Viet Nam program.

As a result of the audit of vouchers, the Commodity Audit Unit, during calendar year 1966, issued 330 bills for collection amounting to over \$5 million, of which 39 amounting to about \$223,000 were applicable to the Viet Nam program.

AID officials estimated that, of the 1,579 productive man-days expended during the period July to December 1966 in the Commodity Audit Unit, 623 man-days, or 39 percent, were related to the review of Viet Nam transactions.

Price Analysis Branch

The basic responsibility and activity of the Price Analysis Branch is the postaudit of AID-financed transactions to ascertain whether there has been compliance with all applicable requirements related to price, as prescribed in statutes, regulations, or the terms of authorizing documents, and the initiation of remedial action when violations are found. The reviews are made by commodity specialists having specialized knowledge of the trade terms and practices.

As of January 31, 1967, the PAB staff consisted of 20 full-time employees including 5 secretary-clerks. AID officials estimated that about 50 percent of total available staff time was devoted to Viet Nam matters.

During calendar year 1966, PAB audited 7,931 transactions amounting about \$198 million, of which 2,946 transactions amounting to about \$61 million were applicable to the Viet Nam program. As a result of the audit of transactions, PAB issued 95 bills for collection amounting to over \$4.3 million, of which 13 amounting to about \$2.3 million were applicable to the Viet Nam program.

INSPECTOR GENERAL OF FOREIGN ASSISTANCE
DEPARTMENT OF STATE

The Inspector General of Foreign Assistance (IGA), Department of State, has statutory responsibilities under subsection 624(d) of the Foreign Assistance Act of 1961, as amended, for reviewing the effectiveness of United States economic and military assistance programs, Peace Corps operations, and Public Law 480 activities. By law, the Inspector General reports directly to the Secretary of State. There are 23 inspectors in IGA. The office conducts inspections throughout the world, submits findings and recommendations to the head of the operating agency concerned, and follows up on recommendations to determine action taken by the agency involved.

In its report dated October 12, 1966, on United States assistance programs in Viet Nam, the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations made two recommendations concerning activities of IGA in Viet Nam. It recommended an increase in the frequency and coverage of IGA inspections, and it recommended a greater degree of formality in the presentation of reports on inspections.

The Inspector General agreed with the Subcommittee that it would be worthwhile for his office to spend more time in Viet Nam, and he also agreed that there had been instances where it would have been better to report in a more formal fashion on inspection matters which were, instead, set forth only in internal memoranda of record.

We were informed by IGA inspectors that their work is generally carried out by identifying problem areas through discussions with agency management personnel and by monitoring communications between the Washington headquarters and various field activities. On the basis of the discussions and monitoring, problem areas which remain unresolved for excessive lengths of time are selected for review. Inspection work at the field level is concentrated on individual management problems involving potential or actual losses with the objective of developing recommendations for their correction. Moreover, review of program operations in the field also results in the identification of additional areas where improvement is needed, and corrective actions are recommended.

Information furnished by IGA showed that, during calendar year 1966, members of IGA spent a total of 179 days in Viet Nam. This represented 18.2 percent of the total overseas activities of the office. The corresponding figure for calendar year 1965 was 51 man-days in Viet Nam, or 6.7 percent of the total overseas effort. During the first quarter of calendar year 1967, more than one third of the IGA overseas effort was represented by trips to Viet Nam.

IGA made recommendations on a wide variety of subject matters in Viet Nam during calendar year 1966. Among the matters dealt with were controls over the commercial import program, gold outflow problems, black market currency operations, nonutilization of equipment, AID Mission internal audit effort, and apparent procurement irregularities.

The efforts of the IGA have been concentrated on economic assistance. No efforts have been expended on military assistance furnished to Viet Nam or other Free World Forces in that these are no longer funded from the military assistance appropriation, but are funded directly from the military services' appropriations. The Department of Defense audit agencies have the responsibility for auditing the military assistance program, and their activities in this regard are discussed further on page 88.